**As filed with the U.S. Securities and Exchange Commission on February 6, 2024.**

**Registration No. 333-**

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

# FORM S-1

**REGISTRATION STATEMENT**
**UNDER THE SECURITIES ACT OF 1933**

# Airship AI Holdings, Inc.

(Exact name of registrant as specified in its charter)

| **Delaware** | **7372** | **93-4974766** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

**8210 154th Ave NE**
**Redmond, WA 98052**
**Tel: (877) 462-4250**
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Victor Huang**
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**New York, NY 10154**
**Telephone: (212) 407-4000**

Approximate date of commencement of proposed sale to public: From time to time after the effective date hereof.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 7(a)(2)(B) of the Securities Act. ☐

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the SEC, acting pursuant to Section 8(a) of the Securities Act, may determine.**

The information contained in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS
SUBJECT TO COMPLETION DATED FEBRUARY 6, 2024

**AIRSHIP AI HOLDINGS, INC.**

**12,406,202 Shares of Common Stock**
**16,184,612 Shares of Common Stock Underlying Public Warrants**
**2,689,902 Shares of Common Stock Underlying Converted Warrants**
**1,758,105 Shares of Common Stock Underlying Converted Options**
**1,019,989 Shares of Common Stock Underlying Platinum Convertible Note**
**189,334 Shares of Common Stock Underlying Platinum Warrant**

We are registering for resale by certain selling securityholders named herein (the "Selling Securityholders") up to (i) 12,406,202 shares of our common stock, $0.0001 par value per share ("Common Stock"); (ii) 2,689,902 shares of Common Stock issuable upon the exercise of warrants to purchase shares of Common Stock issued in connection with the Business Combination (as defined below) as a result of the conversion of Airship Warrants (as defined below) held by certain of the Selling Securityholders (the "Converted Warrants"); (iii) 1,758,105 shares of Common Stock issuable upon the exercise of options to acquire shares of Common Stock issued in connection with the Business Combination as a result of the conversion of Airship Options (as defined below) held by certain of the Selling Securityholders (the "Converted Options"); (iv) 1,019,989 shares of Common Stock issuable upon the conversion of an amended and restated senior secured convertible promissory note issued by us to Platinum Capital Partners Inc. ("Platinum") in a private placement on February 2, 2024 (the "Platinum Convertible Note"); and (v) 189,334 shares of Common Stock issuable upon the exercise of an amended and restated common stock purchase warrant issued by us to Platinum in a private placement on February 2, 2024 (the "Platinum Warrant").

In addition, this prospectus relates to the issuance by us of up to 16,184,612 shares of Common Stock that are issuable upon the exercise of the public warrants (the "Public Warrants" or the "Warrants"), which shares were previously registered in connection with the Business Combination.

The Selling Securityholders may offer, sell or distribute all or a portion of the securities hereby registered publicly or through private transactions at prevailing market prices or at negotiated prices. We will not receive any of the proceeds from such sales of the shares of their Common Stock. On February 2, 2024, the last reported sales price of our Common Stock was $1.50. The exercise price per share of the Public Warrants is $11.50, the exercise price per share of the Converted Warrants is $1.77 and the exercise price per share of the Platinum Warrant is $3.69717. The exercise price of the Public Warrants is significantly higher than the current market price of our Common Stock and accordingly, it is highly unlikely that holders of the Public Warrants will exercise their Public Warrants in the foreseeable future. Cash proceeds associated with the exercises of the Public Warrants, the Converted Warrants and the Platinum Warrant are dependent on our stock price and given the recent price volatility of our Common Stock and relative lack of liquidity in our stock, we may not receive any cash proceeds in relation to such outstanding warrants. We will bear all costs, expenses and fees in connection with the registration of these securities, including with regard to compliance with state securities or "blue sky" laws. The Selling Securityholders will bear all commissions and discounts, if any, attributable to their sale of shares of Common Stock. See "*Plan of Distribution*."

Our Common Stock is listed on The Nasdaq Global Market under the symbol "AISP". Our Public Warrants are listed on The Nasdaq Capital Market under the symbol "AISPW". On February 2, 2024, the last reported sales price of our Common Stock was $1.50 per share and the last reported sales price of our Public Warrants was approximately $0.06 per warrant.

The shares of Common Stock being registered for resale in this prospectus will constitute a considerable percentage of our "public float" (defined as the number of our outstanding shares of Common Stock held by non-affiliates). In addition, a portion of the shares of Common Stock being registered for resale hereunder were purchased by the Selling Securityholders at prices below the current market price of our Common Stock. Given the substantial amount of redemptions in connection with the Business Combination (see "*Prospectus Summary*"), and the relative lack of liquidity in our stock, sales of our Common Stock under the registration statement of which this prospectus is a part could result in a significant decline in the market price of our securities.

**Investing in our securities involves a high degree of risk. You should review carefully the risks and uncertainties described under the heading "*Risk Factors*" beginning on page 8 of this prospectus, and under similar headings in any amendment or supplements to this prospectus.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2024.

**TABLE OF CONTENTS**


| | |
|---|---|
| FREQUENTLY USED TERMS | 2 |
| CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS | 3 |
| PROSPECTUS SUMMARY | 4 |
| THE OFFERING | 7 |
| RISK FACTORS | 8 |
| USE OF PROCEEDS | 30 |
| MARKET INFORMATION OF OUR SECURITIES | 31 |
| UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION | 32 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF AIRSHIP AI | 48 |
| DESCRIPTION OF AIRSHIP AI'S BUSINESS | 58 |
| DIRECTORS AND EXECUTIVE OFFICERS | 65 |
| EXECUTIVE COMPENSATION | 70 |
| BENEFICIAL OWNERSHIP OF SECURITIES | 77 |
| CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE | 79 |
| DESCRIPTION OF OUR SECURITIES | 82 |
| MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES | 93 |
| SELLING STOCKHOLDERS | 97 |
| PLAN OF DISTRIBUTION | 99 |
| EXPERTS | 101 |
| LEGAL MATTERS | 101 |
| WHERE YOU CAN FIND MORE INFORMATION | 101 |
| INDEX TO FINANCIAL STATEMENTS | F-1 |


**No one has been authorized to provide you with information that is different from that contained in this prospectus. This prospectus is dated as of the date set forth on the cover hereof. You should not assume that the information contained in this prospectus is accurate as of any date other than that date.**

For investors outside the United States: We have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

## FREQUENTLY USED TERMS

Unless otherwise indicated or the context otherwise requires, references in this prospectus to the "***Company***," "***we***," "***our***," "***us***" or similar terms refer to Airship AI Holdings, Inc., a Delaware corporation, and its subsidiaries, including Airship AI, Inc., a Washington corporation. In addition, in this prospectus:

- "**Airship AI**" refers to Airship AI, Inc. (formerly known as Airship AI Holdings, Inc.), a Washington corporation.
- "**Board**" refers to the board of directors of the Company.
- "**Business Combination**" refers to the transactions contemplated by the Merger Agreement, including the Domestication and the Merger, which closed on December 21, 2023.
- "**BYTS**" refers to BYTE Acquisition Corp., a Cayman Islands exempted company, prior to the Business Combination and its domestication as a Delaware corporation.
- "**Charter**" refers to the Certificate of Incorporation of the Company, as amended, which took effect upon the Closing.
- "**Closing**" refers to the closing of the Business Combination.
- "**Closing Date**" refers to December 21, 2023, the date on which the Business Combination is consummated.
- "**Code**" refers to the Internal Revenue Code of 1986, as amended.
- "**Common Stock**" refers to our common stock, par value $0.0001.
- "**Domestication**" refers the domestication of BYTS as a Delaware corporation, in which BYTS de-registered from the Register of Companies in the Cayman Islands by way of continuation out of the Cayman Islands and into the State of Delaware so as to migrate to and domesticate as a Delaware corporation. Following the Domestication, BYTS was renamed "Airship AI Holdings, Inc."
- "**Exchange Act**" refers to the Securities Exchange Act of 1934, as amended.
- "**IPO**" refers to the initial public offering of 30,000,000 units of BYTS consummated on March 23, 2021, including the 2,369,251 units after the partial exercise of the over-allotment option on April 7, 2021.
- "**Merger**" means the statutory merger of Merger Sub with and into Airship AI pursuant to the terms of the Merger Agreement, with Airship AI continuing as the surviving entity and a wholly-owned subsidiary of the Company and changing its name to "Airship AI, Inc."
- "**Merger Agreement**" refers to that certain Merger Agreement, dated as of June 27, 2023 and amended as of September 22, 2023, by and among BYTS, BYTE Merger Sub, Inc., a Washington corporation and a direct, wholly-owned subsidiary of BYTS ("Merger Sub"), and Airship AI.
- "**Private Warrants**" refers to the warrants included as part of the private units which were issued in a private placement in connection with the IPO, with each whole warrant entitling the holder to purchase one share of Common Stock at an exercise price of $11.50 per share.
- "**Securities Act**" refers to the Securities Act of 1933, as amended.
- "**Sponsor**" refers to Byte Holdings LP, a Cayman Islands exempted limited partnership and the sponsor of BYTS.
- "**US Dollars**," "**$**" and "**USD$**" refer to the legal currency of the United States.
- "**U.S. GAAP**" refers to accounting principles generally accepted in the United States.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus may constitute "forward-looking statements" for purposes of the federal securities laws. Forward-looking statements include, but are not limited to, statements regarding the Company or its management team's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "appear," "approximate," "believe," "continue," "could," "estimate," "expect," "foresee," "intends," "may," "might," "plan," "possible," "potential," "predict," "project," "seek," "should," "would" and similar expressions (or the negative version of such words or expressions) may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements are based on the current expectations of the management of the Company, as applicable, and are inherently subject to uncertainties and changes in circumstances and their potential effects and speak only as of the date of such statement. There can be no assurance that future developments will be those that have been anticipated. These forward-looking statements involve a number of risks, uncertainties or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described in "*Risk Factors*," those discussed and identified in public filings made with the SEC by the Company and the following:

- changes in the competitive industries and markets in which the Company operates or plans to operate;
- changes in applicable laws or regulations affecting the Company's business;
- the Company's ability to implement business plans, forecasts, and other expectations after the completion of the Business Combination, and identify and realize additional opportunities;
- risks related to the Company's potential inability to achieve or maintain profitability and generate significant revenue;
- current and future conditions in the global economy, including as a result of economic uncertainty, and its impact on the Company, its business and the markets in which it operates;
- the Company's potential inability to manage growth effectively;
- the Company's ability to recruit, train and retain qualified personnel;
- estimates for the prospects and financial performance of the Company's business may prove to be incorrect or materially different from actual results;
- costs related to the Business Combination and the failure to realize anticipated benefits of the Business Combination;
- risks related to the Company's marketing and growth strategies;
- the effects of competition on the Company's business;
- expectations with respect to future operating and financial performance and growth, including when the Company will generate positive cash flow from operations;
- the Company's ability to raise funding on reasonable terms as necessary to develop its products in the timeframe contemplated by its business plan;
- the inability to maintain the listing of the Company's securities on Nasdaq following the Business Combination.

In addition, there may be events that the Company's management is not able to predict accurately or over which the Company has no control.

Should one or more of these risks or uncertainties materialize or should any of the assumptions made by the management of the Company proves incorrect, actual results may vary in material respects from those projected in these forward-looking statements.

All subsequent written and oral forward-looking statements concerning the Business Combination or other matters addressed in this prospectus and attributable to the Company or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this prospectus. Except to the extent required by applicable law or regulation, the Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

## PROSPECTUS SUMMARY

*This summary highlights selected information from this prospectus and does not contain all of the information that is important to you in making an investment decision. This summary is qualified in its entirety by the more detailed information included in this prospectus. Before making your investment decision with respect to our securities, you should carefully read this entire prospectus, including the information under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements included elsewhere in this prospectus.*

*Unless otherwise indicated or the context otherwise requires, references in this prospectus to the "Company," "we," "our," "us" and other similar terms refer to Airship AI Holdings, Inc. and its subsidiaries, including Airship AI.*

**The Company**

Airship AI Holdings, Inc. is a United States (U.S.) owned and operated technology company headquartered in Redmond, Washington. Airship AI is an AI-driven video, sensor and data management surveillance platform that improves public safety and operational efficiency for public sector and commercial customers by providing predictive analysis of events before they occur and meaningful intelligence to decision makers.

On March 23, 2021, BYTS consummated its IPO of 30,000,000 units at $10.00 per unit. The underwriter was granted a 45-day option from the date of the final prospectus relating to the IPO to purchase up to 4,500,000 additional units to cover over-allotments, if any, at $10.00 per unit. On April 7, 2021, the underwriter exercised the over-allotment option in part and purchased an additional 2,369,251 units. Simultaneously with the closing of the IPO, BYTS consummated the private placement of 1,030,000 private units at a price of $10.00 per units.

On June 27, 2023, BYTS entered into the Merger Agreement with Merger Sub and Airship AI. On December 20, 2023, BYTS de-registered from the Register of Companies in the Cayman Islands by way of continuation out of the Cayman Islands and into the State of Delaware so as to migrate to and domesticate as a Delaware corporation, and changed its name to "Airship AI Holdings, Inc." Effective December 21, 2023, following the Domestication, Merger Sub merged with and into Airship AI pursuant to the terms of the Merger Agreement, with Airship AI continuing as the surviving entity and a wholly-owned subsidiary of the Company and changing its name to "Airship AI, Inc."

In connection with the Domestication, (x) immediately prior to the Domestication, the Sponsor surrendered to BYTS for no consideration the sole issued and outstanding Class B ordinary share of BYTS and (y) at the effective time of the Domestication, (i) each then issued and outstanding Class A ordinary share of BYTS converted automatically, on a one-for-one basis, into one share of Common Stock; (ii) each then issued and outstanding warrant to purchase one BYTS Class A ordinary share became exercisable for one share of Common Stock pursuant to the terms of the Warrant Agreement, dated as of March 18, 2021, by and between BYTS and Continental Stock Transfer & Trust Company, as warrant agent; and (iii) each then issued and outstanding unit of BYTS separated and converted automatically into one share of Common Stock and one-half of one Warrant.

At the Closing, pursuant to the terms of the Merger Agreement, the total consideration paid by BYTS to Airship AI securityholders in connection with the Merger was $225.0 million in the form of shares of Common Stock (at a deemed value of $10.00 per share).

In addition, Airship AI securityholders who held shares of common stock of Airship AI ("Airship Common Stock"), Airship Options (as defined below), Airship Earnout Warrants (as defined in the Merger Agreement) or Airship SARs (as defined below) (the "Airship Earnout Holders") have the contingent right to receive up to 5.0 million additional shares of Common Stock (the "Earnout Shares"), in accordance with, and subject to, the contingencies set forth in the Merger Agreement.

Pursuant to the Merger Agreement, at the effective time of the Merger (the "Effective Time"), (A) options to purchase shares of Airship Common Stock (the "Airship Options") that were outstanding as of immediately prior to the Effective Time converted into options to purchase shares of Common Stock, on substantially the same terms and conditions as were in effect with respect to such Airship Options immediately prior to the Effective Time, (B) warrants to acquire shares of Airship Common Stock (the "Airship Warrants") that were outstanding as of immediately prior to the Effective Time converted into warrants to purchase shares of Common Stock, on substantially the same terms and conditions as were in effect with respect to such Airship Warrants immediately prior to the Effective Time, and (C) stock appreciation rights granted under Airship AI's stock appreciation rights plan (the "Airship SARs") that were outstanding immediately prior to the Effective Time were assumed by the Company and converted into stock appreciation rights denominated in shares of Common Stock, subject to substantially the same terms and conditions as were applicable to such Airship SARs immediately prior to the Effective Time.

The Company's bylaws provide that the shares of Common Stock issued as merger consideration will be subject to lock-up obligations set forth in the bylaws, unless waived by the unanimous approval of the board of directors; provided, that such lockup obligations do not apply to the lock-up shares of any lock-up holder that have been released from the lock-up obligations set forth therein in writing by the Company prior to the Closing Date.

On December 21, 2023, the Business Combination, among other transactions contemplated by the Merger Agreement, was completed.

Our principal executive offices are located at 8210 154th Ave NE, Redmond, WA 98052 and our telephone number is (877) 462-4250. Our corporate website address is https://airship.ai. The Company's website and the information contained on, or that can be accessed through, the website is not deemed to be incorporated by reference in, and is not considered part of, this prospectus.

**Private Placement**

On February 2, 2024, the Company issued in a private placement an Amended and Restated Senior Secured Convertible Promissory Note to Platinum Capital Partners Inc. ("Platinum") in the principal amount of $2,000,000 (the "Platinum Convertible Note"). The Platinum Convertible Note amends and restates in its entirety the Senior Secured Convertible Promissory Note issued to Platinum in the principal amount of $2,000,000 on June 22, 2023. The repayment amount of the Platinum Convertible Note is 110% of the principal amount ($2,200,000) and matures in full on June 22, 2024. Interest accrues on the Platinum Convertible Note at the rate of 6% per annum calculated on the basis of 360 days. At the option of Platinum, the principal amount of the Platinum Convertible Note plus any accrued but unpaid interest is convertible into shares of Common Stock at a conversion price per share equal to the lower of (i) $3.69717, subject to appropriate adjustment as provided in the Platinum Convertible Note, and (ii) 65% of the VWAP for the Common Stock for the preceding five trading days immediately prior to any conversion, but in no event below $2.27518, subject to appropriate adjustment as provided in the Platinum Convertible Note. The Platinum Convertible Note contains "weighted average" anti-dilution protection for issuances of shares of Common Stock or Common Stock equivalents at a price less than the conversion price then in effect.

In connection with the issuance of the Platinum Convertible Note, the Company also issued to Platinum an Amended and Restated Common Stock Purchase Warrant (the "Platinum Warrant") dated February 2, 2024 to purchase 189,334 shares of Common Stock at an exercise price per share of $3.69717. The term of the Platinum Warrant expires on June 22, 2028. The Platinum Convertible Note may not converted, and the Platinum Warrant may not be exercised, to the extent that after giving effect to such conversion and/or exercise, Platinum (together with its affiliates) would beneficially own in excess of 4.99% of the Common Stock outstanding immediately after giving effect to such conversion and/or exercise.

The obligations under the Platinum Convertible Note are secured by a blanket lien on all assets of the Company pursuant to an Amended and Restated Security Agreement dated February 2, 2024 (the "Security Agreement") and are guaranteed pursuant to an Amended and Restated Guaranty dated February 2, 2024 (the "Guaranty"). The Company also concurrently entered into an Amended and Restated Subordination Agreement.

**Risk Factors Summary**

Investing in our securities involves risks. You should carefully consider the risks described in "*Risk Factors*" before making a decision to invest in our securities. If any of these risks actually occurs, our business, financial condition and results of operations would likely be materially adversely affected. In such case, the trading price of our securities would likely decline, and you may lose all or part of your investment. Set forth below is a summary of some of the principal risks we face:

***Risks Related to Airship AI's Business and Industry***

· The market for Airship AI's edge AI services and products is relatively new, and may decline or experience limited growth, and Airship AI's business is dependent on its clients' continuing adoption and use its services and products.

· Airship AI's sales efforts involve considerable time and expense and its sales cycle is often long and unpredictable.

· Historically, existing customers have expanded their relationships with Airship AI, which has resulted in a limited number of customers accounting for a substantial portion of its revenue.

- If Airship AI does not successfully develop and deploy new technologies to address the needs of its customers, its business and results of operations could suffer.
- Issues raised by the use of artificial intelligence ("AI") (including machine learning) in Airship AI's platforms may result in reputational harm or liability.
- Real or perceived errors, failures, defects, or bugs in Airship AI's platforms could adversely affect its results of operations and growth prospects.
- Airship AI may not be able to adequately protect or enforce its intellectual property rights or prevent unauthorized parties from copying or reverse engineering its solutions.
- Airship AI has not been profitable in the past and may not achieve or maintain profitability in the future.
- Airship AI requires substantial additional funding, which may not be available to Airship AI on acceptable terms, or at all.
- Unavailability of materials or higher costs could adversely affect Airship AI's financial results.
- If Airship AI's security measures are breached or fail and unauthorized access is obtained to a customer's data, our service may be perceived as insecure, the attractiveness of its services to current or potential customers may be reduced, and Airship AI may incur significant liabilities.
- Airship AI depends on its management team and other key employees and the ability to attract and retain highly skilled employees.
- Airship AI's management team has limited experience managing a public company and regulatory compliance may divert their attention from the day-to-day management of Airship AI's business.
- Airship AI's business depends, in part, on sales to government organizations, and significant changes in the contracting or fiscal policies of such government organizations could have an adverse effect on Airship AI's business and operating results.
- If Airship AI fails to maintain effective internal control over financial reporting or identify a material weakness or significant deficiency in its internal control over financial reporting, Airship AI's ability to report its financial condition and results of operations in a timely and accurate manner could be adversely affected, investor confidence in Airship AI company could diminish, and the value of its stock may decline.
- Airship AI could be subject to additional tax liabilities.

**Risks Related to Our Securities**

- There may not be enough liquidity in our securities to enable stockholders to sell their securities.
- The market price of our equity securities may be volatile, and you could lose a significant part of your investment.
- Our executive officers and directors exercise significant control over us, which will limit your ability to influence corporate matters and could delay or prevent a change in corporate control.
- The requirements of being a public company may strain the Company's resources and distract management and we will incur substantial costs as a result of being a public company.
- We do not intend to pay any cash dividends in the foreseeable future.
- If our shares become subject to the penny stock rules, it would become more difficult to trade our shares.

**THE OFFERING**

| | |
|---|---|
| **Issuer** | Airship AI Holdings, Inc. |
| **Shares of Common Stock offered by the Selling Securityholders** | We are registering for resale by the Selling Securityholders up to (i) 12,406,202 shares of Common Stock; (ii) 2,689,902 shares of Common Stock issuable upon the exercise of Converted Warrants held by certain of the Selling Securityholders; (iii) 1,758,105 shares of Common Stock issuable upon the exercise of Converted Options held by certain of the Selling Securityholders; (iv) 1,019,989 shares of Common Stock issuable upon the conversion of the Platinum Convertible Note; and (v) 189,334 shares of Common Stock issuable upon the exercise the Platinum Warrant. |
| **Securities registered for primary issuance** | We are registering the primary issuance of an aggregate of up to 16,184,612 shares of Common Stock underlying the Public Warrants, which shares were previously registered in connection with the Business Combination. |
| **Terms of the offering** | The Selling Securityholders will determine when and how they will dispose of the shares of Common Stock registered under this prospectus for resale. See "*Plan of Distribution*." |
| **Shares outstanding prior to this offering** | 22,812,048 |
| **Shares outstanding after this offering** | 42,895,885 (assuming the conversion of the Platinum Note into 1,019,989 shares of Common Stock and exercise for cash of outstanding Public Warrants to purchase 16,184,612 shares of Common Stock, outstanding Converted Warrants to purchase 2,689,902 shares of Common Stock and the outstanding Platinum Warrant to purchase 189,334 shares of Common Stock). |
| **Use of proceeds** | We will not receive any of the proceeds from the sale of shares of Common Stock by the Selling Securityholders except with respect to amounts received by us due to the cash exercise of the Public Warrants, Converted Warrants and the Platinum Warrant. On February 2, 2024, the last reported sales price of our Common Stock was $1.50. The exercise price per share of the Public Warrants is $11.50, the exercise price per share of the Converted Warrants is $1.77 and the exercise price per share of the Platinum Warrant is $3.69717. The exercise price of the Public Warrants is significantly higher than the current market price of our Common Stock and accordingly, it is highly unlikely that holders of the Public Warrants will exercise their Public Warrants in the foreseeable future. Cash proceeds associated with the exercises of the Public Warrants, the Converted Warrants and the Platinum Warrant are dependent on our stock price and given the recent price volatility of our Common Stock and relative lack of liquidity in our stock, we may not receive any cash proceeds in relation to such outstanding warrants. We expect to use the proceeds received from the exercise of such warrants, if any, for working capital and general corporate purposes. See "*Use of Proceeds.*" |
| **Risk factors** | You should carefully read the "*Risk Factors*" beginning on page 8 and the other information included in this prospectus for a discussion of factors you should consider carefully before deciding to invest in our Common Stock or Warrants. |
| **Nasdaq ticker symbols** | Our Ordinary Shares are listed on The Nasdaq Global Market under the symbol "AISP" and our Public Warrants are listed on The Nasdaq Capital Market under the symbol "AISPW". |

## RISK FACTORS

*An investment in our securities involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not known to us or that we consider immaterial as of the date of this prospectus. The trading price of our securities could decline due to any of these risks, and, as a result, you may lose all or part of your investment. The following discussion should be read in conjunction with Airship AI's financial statements and notes thereto included herein. You should carefully consider the following risk factors in addition to the other information included in this prospectus, including matters addressed in the section titled "Cautionary Statement Regarding Forward-Looking Statements."*

*Unless the context requires otherwise, references to "Airship AI," "we," "us," "our" and "the Company" in this section are to the business and operations of Airship AI prior to the Business Combination and the business and operations of the Company as directly or indirectly affected by Airship AI by virtue of the Company's ownership of the business of Airship AI following the Business Combination.*

### Risks Related to Airship AI's Business and Industry

***The market for Airship AI's edge AI services and products is relatively new, and may decline or experience limited growth, and Airship AI's business is dependent on its clients' continuing adoption and use its services and products.***

The edge AI market is relatively new and is subject to a number of risks and uncertainties. Airship AI has developed an edge AI platform system. Through this platform, we deliver our edge AI services to our clients, which include law enforcement, military, and commercial enterprise organizations. Airship AI believes that our future success will significantly depend on the growth, if any, of this market and the use of our services and products, including our Nexus real-time analytics technology.

The use of edge AI is still relatively new, and consumers may not recognize the need for or benefits of our services and products. If consumers do not recognize the need for and benefits of our services and products, then they may decide to adopt alternative services to satisfy some portion of their business needs. In order to grow our business and extend our market position, Airship AI intends to focus on educating potential customers about the benefits of our services and products, expanding the range of Airship AI's services and bringing new technologies to market to increase market acceptance and use of our platform. Airship AI's ability to expand the market that our services and products address depends upon a number of factors, including the cost, performance and perceived value associated with our services and products. The market for our services and products could fail to grow significantly or there could be a reduction in demand for our services and/or products as a result of a lack of acceptance, technological challenges, competing services, a decrease in spending by current and prospective customers, weakening economic conditions and other causes. If the edge AI market does not experience significant growth, or demand for its services and/or products decreases, then our business, financial condition and results of operations could be adversely affected.

***If Airship AI does not develop enhancements to its services and introduce new services that achieve market acceptance, its growth, business, results of operations and financial condition could be adversely affected.***

Airship AI's ability to attract new clients and increase revenue from existing clients depends, in part, on its ability to enhance and improve its existing services, increase adoption and usage of its services, and introduce new services. The success of any enhancements or new services depends on several factors, including timely completion, adequate quality testing, actual performance quality, market accepted pricing levels and overall market acceptance.

Enhancements, such as additional technology features, and new services, such as software licenses and data services, that Airship AI develops may not be introduced in a timely or cost-effective manner, may contain errors or defects, may have interoperability difficulties with its platform or other services or may not achieve the broad market acceptance necessary to generate significant revenue. Furthermore, Airship AI's ability to increase the usage of its services depends, in part, on the development of new uses for its services, which may be outside of its control. Its ability to generate usage of additional services by its data consumers may also require increasingly sophisticated and more costly sales efforts and result in a longer sales cycle. If Airship AI is unable to successfully enhance its existing services to meet evolving data consumer requirements, increase adoption and usage of its services, develop new services, or if its efforts to increase the usage of its services are more expensive than Airship AI expects, then its business, results of operations and financial condition would be adversely affected.

***Airship AI has experienced moderate growth in the past several years, and if Airship AI fails to effectively manage its growth, then its business, results of operations and financial condition could be adversely affected.***

Airship AI has experienced moderate growth in its business since 2016 when Airship AI developed its edge AI capabilities in video analytics and cyber analytics. For example, Airship AI has also experienced significant growth in the number of data consumers, usage and amount of data that its platform and associated infrastructure support. This growth has placed, and may continue to place, significant demands on its corporate culture, operational infrastructure and management. Any failure to manage Airship AI's anticipated growth and organizational changes in a manner that preserves the key aspects of its culture and services could adversely affect Airship AI's overall chance for future success, including its ability to recruit and retain personnel, and effectively focus on and pursue its corporate objectives. This, in turn, could adversely affect its business, financial condition and results of operations.

In addition, Airship AI's ability to manage its operations and future growth will require Airship AI to continue to improve its operational, financial and management controls, compliance programs with multiple and changing international laws and regulations and reporting systems. Airship AI is currently in the process of strengthening its compliance programs, including its compliance programs related to data protection, privacy and cybersecurity and anti-corruption. Airship AI may not be able to implement improvements in an efficient or timely manner and may discover deficiencies in existing controls, programs, systems and procedures, which could have an adverse effect on its business, reputation, results of operations and financial condition.

***Airship AI's sales efforts involve considerable time and expense and its sales cycle is often long and unpredictable.***

Airship AI's results of operations may fluctuate, in part, because of the intensive nature of our sales efforts and the length and unpredictability of our sales cycle. As part of our sales efforts, we invest considerable time and expense evaluating the specific organizational needs of our potential customers and educating these potential customers about the technical capabilities and value of our platforms and services. We often also provide our platforms to potential customers at no or low cost initially to them for evaluation purposes through short-term pilot deployments of our platforms, and there is no guarantee that we will be able to convert customers from these short-term pilot deployments to full revenue-generating contracts. In addition, we have a growing direct sales force, and our sales efforts have historically depended on the significant involvement of our senior management team. The length of our sales cycle, from initial demonstration of our platforms to sale of our platforms and services, tends to be long and varies substantially from customer to customer. Our sales cycle often lasts six to nine months but can extend to a year or more for some customers. Because decisions to purchase our platforms involve significant financial commitments, potential customers generally evaluate our platforms at multiple levels within their organization, each of which often have specific requirements, and typically involve their senior management.

Our results of operations depend on sales to government and commercial enterprise organizations, which make product purchasing decisions based in part or entirely on factors, or perceived factors, not directly related to the features of the platforms, including, among others, that customer's projections of business growth, uncertainty about macroeconomic conditions (including as a result of the ongoing COVID-19 pandemic, the ongoing Russia-Ukraine war and related economic sanctions, rising inflation and interest rates, or monetary policy changes), capital budgets, anticipated cost savings from the implementation of our platforms, potential preference for such customer's internally-developed software solutions, perceptions about our business and platforms, more favorable terms offered by potential competitors, and previous technology investments. In addition, certain decision makers and other stakeholders within our potential customers tend to have vested interests in the continued use of internally developed or existing software, which may make it more difficult for us to sell our platforms and services. As a result of these and other factors, our sales efforts typically require an extensive effort throughout a customer's organization, a significant investment of human resources, expense and time, including by our senior management, and there can be no assurances that we will be successful in making a sale to a potential customer. If our sales efforts to a potential customer do not result in sufficient revenue to justify our investments, including in our growing direct sales force, our business, financial condition, and results of operations could be adversely affected.

***Historically, existing customers have expanded their relationships with Airship AI, which has resulted in a limited number of customers accounting for a substantial portion of its revenue. If existing customers do not make subsequent purchases from Airship AI or renew their contracts with Airship AI, or if its relationships with its largest customers are impaired or terminated, Airship AI's revenue could decline, and its results of operations would be adversely impacted.***

We derive a significant portion of our revenue from existing customers that expand their relationships with us. Increasing the size and number of the deployments of our existing customers is a major part of our growth strategy. We may not be effective in executing this or any other aspect of our growth strategy.

For the nine months ended September 30, 2023, two customers represented 50% and 16% of total revenue from 48 customers, although such a high level of 50% customer concentration is not typical. We are not substantially dependent on this customer or any one customer. The primary reason for the increase in reliance on a single customer for the nine months ended September 30, 2023 was due to the lag-time in delivering on a large order received in late 2022 from one division of a customer which was not fulfilled until 2023. For the year ended December 31, 2022, two customers represented 28% and 17% of total revenue from 45 customers, which is more representative of our typical customer concentration. Our top customers by revenue have been long term customers. From time to time, we may lose a major customer. It is not possible for us to predict the future level of demand from our larger customers for our platforms and applications.

We do not have any master service agreements with our customers. For our government agency customers, we must submit and complete standard bidding forms which contain all the applicable terms and conditions for our service offerings. In order to bid and secure government agency contracts, we either work directly with certain governmental agencies or work with and through the entity that has the prime bidding relationship with the government agencies. For our commercial customers, they submit detailed purchase orders which generally contain all the key terms and conditions, but such purchase orders may be supported by separate statements of works for particular projects.

Airship AI's customer awards, either through commercial or government customers, come in a variety of forms depending on if the relationship with the customer is a direct relationship or if it is through a partner. For direct relationships, Airship AI receives the award directly from the commercial customer or government agency, either in the form of a purchase order or the requisite government form. For indirect or partner based awards, Airship AI receives the award in the form of a purchase order or task order against the specific effort being awarded.

Regardless of the form of the purchase order and/or the customer vertical, Airship AI has standard terms and conditions which are applied to all awards accepted. These include the specific line items by quantity being acquired, the delivery period for which Airship AI has to deliver the products and services awarded, the support and maintenance offering desired, and the total period of performance for the award (single year or multi-year). Payment is due within 30 days of when the invoice is received irrespective of the type of customer.

While we generally offer contract terms up to five years in length, our customers sometimes enter into shorter-term contracts, such as one-year subscriptions, which may not provide for automatic renewal and may require the customer to opt-in to extend the term. Our customers have no obligation to renew, upgrade, or expand their agreements with us after the terms of their existing agreements have expired. In addition, many of our customer contracts permit the customer to terminate their contracts with us with notice periods of varying lengths, generally three to six months. If one or more of our customers terminate their contracts with us, whether for convenience, for default in the event of a breach by us, or for other reasons specified in our contracts, as applicable; if our customers elect not to renew their contracts with us; if our customers renew their contractual arrangements with us for shorter contract lengths or for a reduced scope; or if our customers otherwise seek to renegotiate terms of their existing agreements on terms less favorable to us, our business and results of operations could be adversely affected. This adverse impact would be even more pronounced for customers that represent a material portion of our revenue or business operations.

Our ability to renew or expand our customer relationships may decrease or vary as a result of a number of factors, including our customers' satisfaction or dissatisfaction with our platforms and services, the frequency and severity of software and implementation errors, our platforms' reliability, our pricing, the effects of general economic conditions, competitive offerings or alternatives, or reductions in our customers' spending levels. If our customers do not renew or expand their agreements with us or if they renew their contracts for shorter lengths or on other terms less favorable to us, our revenue may grow more slowly than expected or decline, and our business could suffer. Our business, financial condition, and results of operations would also be adversely affected if we face difficulty collecting our accounts receivable from our customers or if we are required to refund customer deposits.

Achieving renewal or expansion of deployments may require us to increasingly engage in sophisticated and costly sales efforts that may not result in additional sales. In addition, our customers' decisions to expand the deployment of our platforms depends on a number of factors, including general economic conditions, the functioning of our platforms, the ability of our forward-deployed engineers to assist our customers in identifying new use cases, modernizing their data architectures, and achieving success with data-driven initiatives, and our customers' satisfaction with our services. If our efforts to expand within our existing customer base are not successful, our business may suffer.

***Seasonality may cause fluctuations in Airship AI's results of operations and financial position.***

Historically, the first quarter of our year generally has relatively lower sales, and sales generally increase in each subsequent quarter with substantial increases during our third and fourth quarters ending September 30 and December 31, respectively. We believe that this seasonality results from a number of factors, including:

- the fiscal year end procurement cycle of our government customers, and in particular U.S. government customers which have a fiscal year end of September 30;
- the fiscal year budgeting process for our commercial customers, many of which have a fiscal year end of December 31;
- seasonal reductions in business activity during the summer months in the United States, Europe, and certain other regions; and
- timing of projects and our customers' evaluation of our work progress.

This seasonality has historically impacted and may in the future continue to impact the timing of collections and recognized revenue. Because a significant portion of our customer contracts are typically finalized near the end of the year, and we typically invoice customers shortly after entering into a contract, we may receive a portion of our customer payments near the end of the year and record such payment as an increase in deferred revenue or customer deposits ("contract liabilities"), while the revenue from our customer contracts is generally recognized over the contract term. While we have historically billed and collected payments for multiple contract years from certain customers in advance, we have and may continue to shift to collecting payments on an annual or other basis.

While this has been the historical seasonal pattern of our quarterly sales, we believe that our customers' required timing for certain new government or commercial programs requiring new software may outweigh the nature or magnitude of seasonal factors that might have influenced our business to date. As a result, we may experience future growth from additional government or commercial mandates that do not follow the seasonal purchasing and evaluation decisions by our customers that we have historically observed.

For example, increased government spending on technology aimed at national defense, financial or policy regulation, cybersecurity, or healthcare mandates may drive customer demand at different times throughout our year, the timing of which we may not be able to anticipate and may cause fluctuations in our results of operations. The timing of our fiscal quarters and the U.S. federal government's September 30 fiscal year end also may impact sales to governmental agencies in the third quarter of our year, offsetting, at least in part, the otherwise seasonal downturn we have historically observed in later summer months.

Our recent growth may obscure the extent to which seasonality trends have affected our business and may continue to affect our business. We expect that seasonality will continue to materially impact our business in the future and may become more pronounced over time. The seasonality of our business may cause continued or increased fluctuations in our results of operations and cash flows, which may prevent us from achieving our quarterly or annual forecasts or meeting or exceeding the expectations of research analysts or investors, which in turn may cause a decline in the trading price of our securities.

***If Airship AI does not successfully develop and deploy new technologies to address the needs of its customers, its business and results of operations could suffer.***

Airship AI's success has been based on our ability to design software and products that enable the integration of data into a common operating environment to facilitate advanced data analysis, knowledge management, and collaboration. We spend substantial amounts of time and money researching and developing new technologies and enhanced versions of existing features to meet our customers' and potential customers' rapidly evolving needs. There is no assurance that our enhancements to our platforms or our new product features, capabilities, or offerings, including new product modules, will be compelling to our customers or gain market acceptance. If our research and development investments do not accurately anticipate customer demand or if we fail to develop our platforms in a manner that satisfies customer preferences in a timely and cost-effective manner, we may fail to retain our existing customers or increase demand for our platforms.

The introduction of new products and services by competitors or the development of entirely new technologies to replace existing offerings could make our platforms obsolete or adversely affect our business, financial condition, and results of operations. We may experience difficulties with software development, design, or marketing that delay or prevent our development, introduction, or implementation of new platforms, features, or capabilities. We have in the past experienced delays in our internally planned release dates of new features and capabilities, and there can be no assurance that new platforms, features, or capabilities will be released according to schedule. Any delays could result in adverse publicity, loss of revenue or market acceptance, or claims by customers brought against us, any of which could harm our business. Moreover, the design and development of new platforms or new features and capabilities to our existing platforms may require substantial investment, and we have no assurance that such investments will be successful. If customers do not widely adopt our new platforms, experiences, features, and capabilities, we may not be able to realize a return on our investment and our business, financial condition, and results of operations may be adversely affected.

Our new and existing platforms and changes to our existing platforms could fail to attain sufficient market acceptance for many reasons, including:

- our failure to predict market demand accurately in terms of product functionality and to supply offerings that meet this demand in a timely fashion;
- product defects, errors, or failures or our inability to satisfy customer service level requirements;
- negative publicity or negative private statements about the security, performance, or effectiveness of our platforms or product enhancements;
- delays in releasing to the market our new offerings or enhancements to our existing offerings, including new product modules;
- introduction or anticipated introduction of competing platforms or functionalities by our competitors;
- inability of our platforms or product enhancements to scale and perform to meet customer demands;
- receiving qualified or adverse opinions in connection with security or penetration testing, certifications or audits, such as those related to IT controls and security standards and frameworks or compliance;
- poor business conditions for our customers, causing them to delay software purchases;
- reluctance of customers to purchase proprietary software products;
- reluctance of our customers to purchase products hosted by our vendors and/or service interruption from such providers; and
- reluctance of customers to purchase products incorporating open source software.

If we are not able to continue to identify challenges faced by our customers and develop, license, or acquire new features and capabilities to our platforms in a timely and cost-effective manner, or if such enhancements do not achieve market acceptance, our business, financial condition, results of operations, and prospects may suffer and our anticipated revenue growth may not be achieved. Because we derive, and expect to continue to derive, substantially all of our revenue from customers purchasing our platforms and products, market acceptance of these platforms and products, and any enhancements or changes thereto, is critical to our success.

***Airship AI's ability to sell its platforms and satisfy its customers is dependent on the quality of Airship AI's services, and its failure to offer high quality services could have a material adverse effect on its sales and results of operations.***

Once Airship AI's platforms are deployed and integrated with our customers' existing information technology investments and data, our customers depend on our support and maintenance services to resolve any issues relating to our platforms. Increasingly, our platforms have been deployed in large-scale, complex technology environments, and we believe our future success will depend on our ability to increase sales of our platforms for use in such deployments. Further, our ability to provide effective ongoing services, or to provide such services in a timely, efficient, or scalable manner, may depend in part on our customers' environments and their upgrading to the latest versions of our platforms and participating in our centralized platform management and services.

In addition, our ability to provide effective services is largely dependent on our ability to attract, train, and retain qualified personnel with experience in supporting customers on platforms such as ours. The number of our customers has grown significantly, and that growth has and may continue to put additional pressure on our services teams. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for our support and maintenance services. We also may be unable to modify the future scope and delivery of our support and maintenance services to compete with changes in the services provided by our competitors. Increased customer demand for support, without corresponding revenue, could increase costs and negatively affect our business and results of operations. In addition, as we continue to grow our operations and expand outside of the United States, we need to be able to provide efficient services that meet our customers' needs globally at scale, and our services teams may face additional challenges, including those associated with operating the platforms and delivering support, training, and documentation in languages other than English and providing services across expanded time-zones. If we are unable to provide efficient support and maintenance services globally at scale, our ability to grow our operations may be harmed, and we may need to hire additional services personnel, which could negatively impact our business, financial condition, and results of operations.

Our customers typically need training in the proper use of and the variety of benefits that can be derived from our platforms to maximize the potential of our platforms. If we do not effectively deploy, update, or upgrade our platforms, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing services, our ability to sell additional products and services to existing customers could be adversely affected, we may face negative publicity, and our reputation with potential customers could be damaged. Many enterprise and government customers require higher levels of service than smaller customers. If we fail to meet the requirements of the larger customers, it may be more difficult to execute on our strategy to increase our penetration with larger customers. As a result, our failure to maintain high quality services may have a material adverse effect on our business, financial condition, results of operations, and growth prospects.

***If Airship AI is not able to maintain and enhance its brand and reputation, Airship AI's relationships with its customers, partners, and employees may be harmed, and its business and results of operations may be adversely affected.***

We believe that maintaining and enhancing our brand identity and reputation is important to our relationships with, and to our ability to attract and retain customers, partners, investors, and employees. The successful promotion of our brand depends upon our ability to continue to offer high-quality software, maintain strong relationships with our customers, the community, and others, while successfully differentiating our platforms from those of our competitors. Unfavorable media coverage may adversely affect our brand and reputation. We anticipate that as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. If we do not successfully maintain and enhance our brand identity and reputation, we may fail to attract and retain employees, customers, investors, or partners, grow our business, or sustain pricing power, all of which could adversely impact our business, financial condition, results of operations, and growth prospects. Additionally, despite our internal safeguards and efforts to the contrary, we cannot guarantee that our customers will not ultimately use our platforms for purposes inconsistent with our company values, and such uses may harm our brand and reputation.

***If the market for Airship AI's platforms and services develops more slowly than Airship AI expects, its growth may slow or stall, and its business, financial condition, and results of operations could be harmed.***

The market for Airship AI's platforms is rapidly evolving. Our future success will depend in large part on the growth and expansion of this market, which is difficult to predict and relies on a number of factors, including customer adoption, customer demand, changing customer needs, the entry of competitive products, the success of existing competitive products, potential customers' willingness to adopt an alternative approach to data collection, storage, and processing and their willingness to invest in new software after significant prior investments in legacy data collection, storage, and processing software. The estimates and assumptions that are used to calculate our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of the organizations covered by our market opportunity estimates will pay for our platforms and services at all or generate any particular level of revenue for us. Even if the market in which we compete meets the size estimates and growth forecasts, our business could fail to grow at the levels we expect or at all for a variety of reasons outside our control, including competition in our industry. Further, if we or other data management and analytics providers experience security breaches or incidents, loss, corruption, or unavailability of or unauthorized access to customer data, disruptions in delivery, or other problems, this market as a whole, including our platforms, may be negatively affected. If software for the challenges that we address does not achieve widespread adoption, or there is a reduction in demand caused by a lack of customer acceptance, technological challenges, weakening economic conditions (including due to the ongoing COVID-19 pandemic, the ongoing Russia-Ukraine war and related economic sanctions, rising inflation and interest rates, and monetary policy changes), security or privacy concerns, competing technologies and products, decreases in corporate spending, or otherwise, or, alternatively, if the market develops but we are unable to continue to penetrate it due to the cost, performance, and perceived value associated with our platforms, or other factors, it could result in decreased revenue and our business, financial condition, and results of operations could be adversely affected.

***Issues raised by the use of artificial intelligence ("AI") (including machine learning) in Airship AI's platforms may result in reputational harm or liability.***

AI is enabled by or integrated into some of Airship AI's technology platforms and is a significant and potentially growing element of our business. As with many developing technologies, AI presents risks and challenges that could affect its further development, adoption, and use, and therefore our business. AI algorithms may be flawed. Datasets in AI training, development, or operations may be insufficient, of poor quality, or reflect unwanted forms of bias. Inappropriate or controversial data practices by, or practices reflecting inherent biases of, data scientists, engineers, and end-users of our systems could impair the acceptance of AI solutions. If the recommendations, forecasts, or analyses that AI applications assist in producing are deficient or inaccurate, we could be subjected to competitive harm, potential legal liability, including under new proposed legislation regulating AI in jurisdictions such as the European Union and brand or reputational harm. Some AI scenarios present ethical issues. Though our technologies and business practices are designed to mitigate many of these risks, if we enable or offer AI solutions that are controversial or problematic because of their purported or real impact on human rights, privacy, employment, or other social issues, we may experience brand or reputational harm, as well as regulatory or legal scrutiny.

***Real or perceived errors, failures, defects, or bugs in Airship AI's platforms could adversely affect its results of operations and growth prospects.***

Because Airship AI offers very complex technology platforms, undetected errors, defects, failures, or bugs have occurred and may in the future occur, especially when platforms or capabilities are first introduced or when new versions or other product or infrastructure updates are released. Our platforms are often installed and used in large-scale computing environments with different operating systems, software products and equipment, and data source and network configurations, which may cause errors or failures in our platforms or may expose undetected errors, failures, or bugs in our platforms. Despite testing by us, errors, failures, or bugs may not be found in new software or releases until after commencement of commercial shipments. In the past, errors have affected the performance of our platforms and can also delay the development or release of new platforms or capabilities or new versions of platforms, adversely affect our reputation and our customers' willingness to buy platforms from us, and adversely affect market acceptance or perception of our platforms. Many of our customers use our platforms in applications that are critical to their businesses or missions and may have a lower risk tolerance to defects in our platforms than to defects in other, less critical, software products. Any errors or delays in releasing new software or new versions of platforms or allegations of unsatisfactory performance, errors, defects, or failures in released software could cause us to lose revenue or market share, increase our service costs, cause us to incur substantial costs in redesigning the software, cause us to lose significant customers, subject us to liability for damages and divert our resources from other tasks, any one of which could materially and adversely affect our business, results of operations and financial condition. In addition, our platforms could be perceived to be ineffective for a variety of reasons outside of our control. Hackers or other malicious parties could circumvent our or our customers' security measures, and customers may misuse our platforms resulting in a security breach or perceived product failure.

Real or perceived errors, failures, or bugs in our platforms and services, or dissatisfaction with our services and outcomes, could result in customer terminations and/or claims by customers for losses sustained by them. In such an event, we may be required, or we may choose, for customer relations or other reasons, to expend additional resources in order to help correct any such errors, failures, or bugs. Although we have limitation of liability provisions in our standard software licensing and service agreement terms and conditions, these provisions may not be enforceable in some circumstances, may vary in levels of protection across our agreements, or may not fully or effectively protect us from such claims and related liabilities and costs. We generally provide a warranty to our customers for our software products and services. In the event that there is a failure of warranties in such agreements, we are generally obligated to correct the product or service to conform to the warranty provision as set forth in the applicable agreement, or, if we are unable to do so, the customer is entitled to seek a refund of the purchase price of the product and service (generally prorated over the contract term). The sale and support of our products also entail the risk of product liability claims. We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not adequately cover any claim asserted against us. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation and divert management's time and other resources.

In addition, our platforms integrate a wide variety of other elements, and our platforms must successfully interoperate with products from other vendors and our customers' internally developed software. As a result, when problems occur for a customer using our platforms, it may be difficult to identify the sources of these problems, and we may receive blame for a security, access control, or other compliance breach that was the result of the failure of one of the other elements in a customer's or another vendor's IT, security, or compliance infrastructure. The occurrence of software or errors in data, whether or not caused by our platforms, could delay or reduce market acceptance of our platforms and have an adverse effect on our business and financial performance, and any necessary revisions may cause us to incur significant expenses. The occurrence of any such problems could harm our business, financial condition, and results of operations. If an actual or perceived breach of information correctness, auditability, integrity, or availability occurs in one of our customers' systems, regardless of whether the breach is attributable to our platforms, the market perception of the effectiveness of our platforms could be harmed. Alleviating any of these problems could require additional significant expenditures of our capital and other resources and could cause interruptions, delays, or cessation of our product licensing, which could cause us to lose existing or potential customers and could adversely affect our business, financial condition, results of operations, and growth prospects.

***Airship AI may not be able to adequately protect or enforce its intellectual property rights or prevent unauthorized parties from copying or reverse engineering its solutions. Airship AI's efforts to protect and enforce its intellectual property rights and prevent third parties from violating its rights may be costly.***

The success of Airship AI's services and its business depends, in part, on Airship AI's ability to obtain intellectual property rights and maintain adequate legal protection for its products in the United States and other international jurisdictions. Airship AI does not have any patents. Airship AI relies on a combination of copyright, service mark, and trade secret laws, as well as confidentiality procedures and contractual obligations, to establish and protect its proprietary rights, all of which provide only limited protection. Airship AI cannot be certain that the steps it has taken will prevent unauthorized use of its technology or the reverse engineering of its technology. Moreover, others may independently develop technologies that are competitive to Airship AI or infringe Airship AI's intellectual property.

Protecting against the unauthorized use of Airship AI's intellectual property, products and other proprietary rights is expensive and can be difficult, particularly with respect to international jurisdictions. Unauthorized parties may attempt to copy or reverse engineer Airship AI's solutions or certain aspects of Airship AI's solutions that are considered proprietary. Litigation may be necessary in the future to enforce or defend Airship AI's intellectual property rights, to prevent unauthorized parties from copying or reverse engineering its solutions, to determine the validity and scope of the proprietary rights of others or to block the importation of infringing products into the U.S. Any such litigation, regardless of merit, could be costly, divert the attention of management and may not ultimately be resolved in Airship AI's favor.

Effective trademark, service mark, copyright and trade secret protection may not be available or applied for in every country in which Airship AI's products are available and competitors based in other countries may sell infringing products in one or more markets. An inability to adequately protect and enforce Airship AI's intellectual property and other proprietary rights or an inability to prevent authorized parties from copying or reverse engineering its technology solutions or certain aspects of its solutions that Airship AI considers proprietary could adversely affect its business, operating results, financial condition and prospects.

***Airship AI relies on its unpatented proprietary technology, trade secrets, processes and know-how.***

Airship AI relies on proprietary information (such as trade secrets, know-how and confidential information) to protect intellectual property that may not be patentable or subject to copyright, trademark, trade dress or service mark protection, or that Airship AI believes is best protected by means that do not require public disclosure.

Airship AI generally seeks to protect this proprietary information by entering into confidentiality agreements, or consulting, services or employment agreements that contain non-disclosure and non-use provisions with its employees, consultants, contractors and third parties. However, Airship AI may fail to enter into the necessary agreements and, even if entered into, these agreements may be breached or may otherwise fail to prevent disclosure, third-party infringement or misappropriation of its proprietary information, may be limited as to their term and may not provide an adequate remedy in the event of unauthorized disclosure or use of proprietary information. Airship AI has limited control over the protection of trade secrets used by its current or future manufacturing partners and suppliers and could lose future trade secret protection if any unauthorized disclosure of such information occurs. In addition, Airship AI's proprietary information may otherwise become known or be independently developed by its competitors or other third parties. To the extent that its employees, consultants, contractors, advisors and other third parties use intellectual property owned by others in their work for Airship AI, disputes may arise as to the rights in related or resulting know-how and inventions. Costly and time-consuming litigation could be necessary to enforce and determine the scope of Airship AI's proprietary rights, and failure to obtain or maintain protection for its proprietary information could adversely affect its competitive business position. Furthermore, laws regarding trade secret rights in certain markets where Airship AI operates may afford limited or no protection for its trade secrets.

Airship AI also relies on physical and electronic security measures to protect its proprietary information, but it cannot provide assurance that these security measures will not be breached or that these measures will provide adequate protection. There is a risk that third parties may obtain and improperly utilize Airship AI's proprietary information to its competitive disadvantage. Airship AI may not be able to detect or prevent the unauthorized use of such information or take appropriate and timely steps to enforce its intellectual property rights.

***Airship AI has not been profitable in the past and may not achieve or maintain profitability in the future.***

We had a comprehensive loss of approximately $6.5 million, $498,000 and $5.1 million for the nine months ended September 30, 2023 and the years ended December 31, 2022 and 2021, respectively.

There can be no assurance that Airship AI will ever achieve the level of revenues needed to be profitable in the future and if profitability is achieved, that it will be sustained. Airship AI's revenues have fluctuated and may likely continue to fluctuate significantly from quarter to quarter and from year to year. Airship AI will need to obtain additional capital and increase sales to become profitable.

***Airship AI requires substantial additional funding, which may not be available to Airship AI on acceptable terms, or at all, and, if not so available, may require Airship AI to delay, limit, reduce or cease its operations.***

Airship AI has limited financial resources. There can be no assurance that sufficient funding will be available to us to fund our operating expenses and to further develop our business. Unless we achieve substantial profitability, we anticipate that we will likely need to raise additional capital to fund our operations while we implement and execute our business plan. We currently do not have any contracts or commitments for additional financing. In addition, any additional equity financing may involve substantial dilution to our existing shareholders. There can be no assurance that such additional capital will be available on a timely basis or on terms that will be acceptable to us. Failure to obtain such additional financing could result in delay or indefinite postponement of operations or the further development of our business. If adequate funds are not available or are not available on acceptable terms, we may not be able to further fund our business or the expansion thereof, take advantage of strategic acquisitions or investment opportunities or respond to competitive pressures. Such inability to obtain additional financing when needed could have a material adverse effect on our business, results of operations, cash flow, financial condition and prospects.

***There can be no assurance that Airship AI will be able to comply with the terms of its convertible note.***

Airship AI issued senior secured convertible promissory notes on June 22, 2023 and October 3, 2023 in principal amounts totaling $2,600,000. Pursuant to the terms of a senior secured convertible promissory notes, $2,000,000 is due on June 22, 2024 and $600,000 is due on September 30, 2024. Failure to repay the principal amounts on the due date, an additional 10% and related interest or to convert these amounts into shares of Airship AI common stock in accordance with the promissory notes would result in a default. We may not have the funds to repay, or the ability to refinance, such outstanding amounts and the holder could foreclose upon critical assets. Any of these outcomes would have an adverse effect on our business and financial condition.

***Airship AI has a limited operating history. There can be no assurance that Airship AI will be successful in growing its business.***

We have a limited history of operations. As a result, there can be no assurance that we will be successful in our operations. Any potential for future growth will place additional demands on our executive officers, and any increased scope of our operations will present challenges due to our current limited management resources. There can be no assurance that we will be successful in our efforts. Our inability to locate additional opportunities, to hire additional management and other personnel, or to enhance our management systems, could have a material adverse effect on our results of operations. There can be no assurance that our operations will be profitable.

***Airship AI faces intense competition within its industry and is subject to the effects of technology change.***

The industry in which we are engaged is subject to rapid and significant technological change. There can be no assurance that Airship AI's systems can be upgraded to meet future innovations in the industry or that new technologies will not emerge, or existing technologies will not be improved, which would render Airship AI's offerings obsolete or non-competitive. Many of the companies we compete with enjoy significant competitive advantages over us, including greater name recognition; greater financial, technical and service resources; established networks; additional product offerings; and greater resources for product development and sales and marketing. In addition, there can be no assurance that other established technology companies, any of which would likely have greater resources than Airship AI, will not enter the market. There can be no assurance that Airship AI will be able to compete successfully against any of its competitors.

***Airship AI's proprietary products and services and service delivery may not operate properly, which could damage its reputation, give rise to claims against Airship AI, or divert application of its resources from other purposes, any of which could harm its business and operating results.***

We may encounter supply chain, human, or technical obstacles that prevent our products and services from operating profitably. If our offerings do not function reliably or fail to achieve customer expectations in terms of performance, customers could assert liability claims against us or cancel their contracts with us. This could damage our reputation and impair our ability to attract or maintain customers. We cannot assure you that material performance problems or defects in our products will not arise in the future. Errors may result from receipt, entry, or interpretation of customer information or from interface of our services. These defects and errors and any failure by us to identify and address them could result in loss of revenue or market share, liability to customers or others, failure to achieve market acceptance or expansion, diversion of development resources, injury to our reputation, and increased service and maintenance costs. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability may be substantial and could adversely affect our operating results.

***If critical components used in Airship AI's products become scarce or unavailable, Airship AI may incur delays in delivering its products and providing services, which could damage its business. Airship AI relies on a sustainable supply chain. Any issues with this supply chain could adversely affect daily business operations and profitability.***

We depend on third party providers, suppliers and licensors to supply some of the hardware, software and support necessary to provide some of our products and services. We obtain these materials from a limited number of vendors, some of which do not have a long operating history, or which may not be able to continue to supply the equipment, supplies, and services we desire. Some of our hardware, software and operational support vendors represent our primary or sole source of supply or have, either through contract or as a result of intellectual property rights, a position of some exclusivity. If demand exceeds these vendors' capacity or if these vendors experience operating or financial difficulties or are otherwise unable to provide the equipment or services we need in a timely manner, at our specifications and at reasonable prices, our ability to provide some services might be materially adversely affected, or the need to procure or develop alternative sources of the affected materials or services might delay our ability to serve our customers. These events could materially and adversely affect our ability to retain and attract customers, and have a material negative impact on our operations, business, financial results and financial condition.

***Unavailability of materials or higher costs could adversely affect Airship AI's financial results.***

We depend on certain domestic and international suppliers for the delivery of components used in the assembly of our products. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or sub-assemblies and reduced control over pricing and timing of delivery of components and sub-assemblies. Specifically, we depend on suppliers of sub-assemblies, machined parts, printed circuit boards, custom wire fabrications and other miscellaneous customer parts for our products. Although we have and are implementing additional long-term agreements with strategic suppliers to mitigate the risk of supply continuity, there remains risk across our supply chain while we extend our supplier contract program, and there is no guarantee that supply will not be interrupted. Additionally, if our suppliers do not accurately forecast and effectively allocate production or if they are not willing to allocate sufficient production to us, or they decommit to us previously agreed to supply levels, it may reduce our access to components and require us to search for new suppliers. If we are unable to accurately match the timing and quantities of component purchases to our actual needs, we may incur unexpected production disruption, storage, transportation and write-off costs, which may harm our business and operating results.

Single or sole-source components used in the manufacture of our products may become unavailable or discontinued. Delays caused by industry allocations or obsolescence may take weeks or months to resolve. In some cases, parts obsolescence may require a product re-design to ensure quality replacement components. These delays could cause significant delays in manufacturing and loss of sales, leading to adverse effects significantly impacting our financial condition or results of operations and could harm our reputation.

A significant number of our raw materials or components are comprised of petroleum-based products or incur some form of landed cost associated with transporting the raw materials or components to our facility. Our freight and import costs and the timely delivery of our products could be adversely impacted by a number of factors which could reduce the profitability of our operations, including: higher fuel costs; potential port closures; customs clearance issues; increased government regulation or regulatory changes for imports of foreign products into the U.S.; delays created by terrorist attacks or threats, public health issues, national disasters or work stoppages; and other matters. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability and financial condition. For example, there have been disruptions in the semi-conductor supply chain that could negatively impact our ability to make our products. While many of the COVID-19 driven supply chain issues have been resolved, challenges to the timely production and delivery of Taiwan based products we utilize for our edge AI platform due to geo-political factors is a concern looking forward. In the event that our suppliers are unable to provide timely delivery of those supplies it will significantly impact our ability to meet delivery schedules for existing and anticipated edge AI hardware-based solutions.

International or domestic geopolitical or other events, including the imposition of new or increased tariffs and/or quotas by the U.S. government on any of these raw materials or components and other government trade policies, could adversely impact the supply and cost of these raw materials or components, and could adversely impact our revenues, profitability and financial condition. In particular, the implementation of tariffs and trade restrictions as well as changes in trade policies between the U.S. and China may have an adverse effect on our supply chain from a sourcing and cost perspective. We source certain raw materials from China, as do some of our suppliers. We may be unable to transition away from China to other jurisdictions or obtain secondary source s for raw materials which could result in a material adverse effect on our revenues, profitability and financial condition.

***If Airship AI's security measures are breached or fail and unauthorized access is obtained to a customer's data, our service may be perceived as insecure, the attractiveness of its services to current or potential customers may be reduced, and Airship AI may incur significant liabilities.***

Airship AI services involve the web-based and data storage and transmission of customers' information. We rely on proprietary and commercially available systems, software, tools and monitoring, as well as other processes, to provide security for processing, transmission and storage of such information. Because of the sensitivity of this information and due to requirements under applicable laws and regulations, the effectiveness of our security efforts is very important. If our security measures are breached or fail as a result of third-party action, acts of terror, social unrest, employee error, malfeasance or for any other reasons, someone may be able to obtain unauthorized access to customer data. Improper activities by third-parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our security systems. Our security measures may not be effective in preventing unauthorized access to the customer data stored on our servers. If a breach of our security occurs, we could face damages for contract breach, penalties for violation of applicable laws or regulations, possible lawsuits by individuals affected by the breach and significant remediation costs and efforts to prevent future occurrences. In addition, whether there is an actual or a perceived breach of our security, the market perception of the effectiveness of our security measures could be harmed and we could lose current or potential customers.

***The loss of one or more of Airship AI's significant customers, or any other reduction in the amount of revenue Airship AI derives from any such customer, would adversely affect its business, financial condition, results of operations and growth prospects.***

Airship AI sells its product to commercial and government customers under agreements that are normally paid within 30 days of contract completion. For the nine months ended September 30, 2023, two customers represented 50% and 16% of total revenue from 48 customers, although such a high level of 50% customer concentration is not typical. We are not substantially dependent on this customer or any one customer. The primary reason for the increase in reliance on a single customer for the nine months ended September 30, 2023 was due to the lag-time in delivering on a large order received in late 2022 from one division of a customer which was not fulfilled until 2023. For the year ended December 31, 2022, two customers represented 28% and 17% of total revenue from 45 customers, which is more representative of our typical customer concentration. As of December 31, 2022, four customers represent approximately 42%, 19%, 14% and 10% of outstanding account receivables. As of December 31, 2021, three customers represented 28%, 22% and 18% of the outstanding account receivables. Due to the customers and timely payments, customer concentration in account receivables is minimal.

We expect to continue to derive a significant portion of our revenue from a limited number of customers in the future and, in some cases, the portion of our revenue attributable to individual customers may increase. The loss of one or more significant customers or a reduction in the amount of revenue we derive from any such customer could significantly and adversely affect our business, financial condition and results of operations. Customers may choose not to renew their contracts or may otherwise reduce the breadth of the offerings which they purchase for any number of reasons. We are also subject to the risk that any such customer will experience financial difficulties that prevent them from making payments to us on a timely basis or at all.

***Airship AI depends on key information systems and third party service providers.***

We depend on key information systems to accurately and efficiently transact our business. These systems and services are vulnerable to interruptions or other failures resulting from, among other things, pandemics, epidemics, natural disasters, terrorist attacks, software or equipment failures, processing errors, computer viruses, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the systems or process transactions, loss of customers or other business disruptions, all of which could negatively affect our business and financial performance.

As cybersecurity attacks continue to evolve and increase, our information systems could also be penetrated or compromised by internal and external parties' intent on extracting confidential information, disrupting business processes or corrupting information. These risks could arise from external parties or from acts or omissions of internal or service provider personnel. Such unauthorized access could disrupt our business and could result in the loss of assets, litigation, remediation costs, damage to our reputation and failure to retain or attract customers following such an event, which could adversely affect our business.

***Cyber-attacks and security vulnerabilities could lead to reduced revenue, increased costs, liability claims, or harm to Airship AI's competitive position.***

Increased sophistication and activities of perpetrators of cyber-attacks have resulted in an increase in information security risks in recent years. Hackers develop and deploy viruses, worms, and other malicious software programs that attack products and services and gain access to networks and data centers. If we experience difficulties maintaining existing systems or implementing new systems, we could incur significant losses due to disruptions in our operations. Additionally, these systems contain valuable proprietary and confidential information and may contain personal data of our customers. A security breach could result in disruptions of our internal systems and business applications, harm to our competitive position from the compromise of confidential business information, or subject us to liability under laws that protect personal data. As cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities. Any of these consequences would adversely affect our revenue and margins.

***Claims by others that Airship AI infringes their intellectual property could force Airship AI to incur significant costs or revise the way Airship AI conducts its business.***

Our competitors protect their proprietary rights by means of patents, trade secrets, copyrights, trademarks and other intellectual property. We have not conducted an independent review of patents and other intellectual property issued to third-parties, who may have patents or patent applications relating to our proprietary technology. We may receive letters from third parties alleging, or inquiring about, possible infringement, misappropriation or violation of their intellectual property rights. Any party asserting that we infringe, misappropriate or violate proprietary rights may force us to defend ourselves, and potentially our customers, against the alleged claim. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and/or invalidation of our proprietary rights or interruption or cessation of our operations. Any such claims or lawsuit could:

- be time-consuming and expensive to defend, whether meritorious or not;
- require us to stop providing products or services that use the technology that allegedly infringes the other party's intellectual property;
- divert the attention of our technical and managerial resources;
- require us to enter into royalty or licensing agreements with third-parties, which may not be available on terms that we deem acceptable;
- prevent us from operating all or a portion of our business or force us to redesign our products, services or technology platforms, which could be difficult and expensive and may make the performance or value of our product or service offerings less attractive;
- subject us to significant liability for damages or result in significant settlement payments; or
- require us to indemnify our customers.

Furthermore, during the course of litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could materially adversely affect our business. Some of our competitors may be able to sustain the costs of intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any litigation could significantly harm our relationships with current and prospective customers. Any of the foregoing could disrupt our business and have a material adverse effect on our business, operating results and financial condition.

***Airship AI's success depends upon the continued protection of its intellectual property rights and Airship AI may be forced to incur substantial costs to maintain, defend, protect and enforce its intellectual property rights.***

We hold certain intellectual property rights, trade secrets and know-how relating to various aspects of its technologies, which are of material importance to Airship AI and its future prospects. Competitors may attempt to challenge our IP and IP systems, or may be able to design alternative techniques or devices that develop products with functionalities that are comparable to ours. In the event a competitor infringes upon our intellectual property, enforcing those rights, even if successful, could be expensive, uncertain, difficult and time consuming and could require significant time and attention from our management. Furthermore, there can be no assurance that Airship AI's products will not infringe on others. We may not have sufficient resources to enforce our intellectual property rights or to defend our IP against challenges from others.

***Airship AI depends on its management team and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could adversely affect its business.***

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel, or delays in hiring required personnel, particularly in engineering and sales, may seriously and adversely affect our business, financial condition and results of operations. Although we have entered into employment or consulting agreements with our personnel, their employment is generally for no specific duration.

Our future performance also depends on the continued services and continuing contributions of our senior management team, which include Victor Huang, our co-Founder and Chief Executive Officer, and Derek Xu, our co-Founder and Chief Operating Officer, to execute on our business plan and to identify and pursue new opportunities and product innovations. The loss of services of our senior management team, particularly our Chief Executive Officer, Chief Operating Officer or Chief Technology Officer, could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition and results of operations.

***Airship AI's management team has limited experience managing a public company and regulatory compliance may divert their attention from the day-to-day management of Airship AI's business.***

Our management team has limited experience managing a publicly-traded company and limited experience complying with the increasingly complex laws pertaining to public companies. These obligations typically require substantial attention from our senior management and could divert their attention away from the day-to-day management of our business.

***Airship AI's business depends, in part, on sales to government organizations, and significant changes in the contracting or fiscal policies of such government organizations could have an adverse effect on Airship AI's business and operating results.***

Our future depends, in part, on continuing sales to government organizations. Demand from government organizations is often unpredictable, subject to budgetary uncertainty and typically involves long sales cycles. We have made significant investments to address the government sector, but we cannot assure you that these investments will be successful, or that we will be able to maintain or grow our revenue from the government sector. Although we anticipate that they may increase in the future, sales to governmental organizations have not accounted for, and may never account for, a significant portion of our revenue. Sales to governmental organizations are subject to a number of challenges and risks that may adversely impact our business. Sales to such government entities include the following risks:

- selling to governmental agencies can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that such efforts will generate a sale;
- government certification requirements applicable to our platform may change and, in doing so, restrict our ability to sell into the governmental sector until we have attained the revised certification;
- government demand and payment for our platform may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our platform; and
- governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our platform, which would adversely impact our revenue and operating results.

The occurrence of any of the foregoing could cause governmental organizations to delay or refrain from purchasing our solutions in the future or otherwise have an adverse effect on our business, operating results and financial condition.

***Acquisitions of, or investments in, other companies, products, or technologies may require significant management attention and could disrupt Airship AI's business, dilute stockholder value, and adversely affect its operating results.***

Our business strategy may include acquiring other complementary products, technologies or businesses. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to third-party approvals, such as government regulatory approvals, which are beyond our control. Consequently, we can make no assurance that these transactions once undertaken and announced, will close.

If we merge with or acquire another company following the Business Combination, it is reasonably expected that there will be increased operating expenses and costs associated with the merger that could negatively impact operating profits in the future periods immediately following the M&A event. The extent and longevity of those impacts is not possible to quantify.

These kinds of acquisitions or investments may result in unforeseen operating difficulties and expenditures. If we acquire businesses or technologies, we may not be able to integrate the acquired personnel, operations, and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired technologies, products, personnel or services in a profitable manner;
- unanticipated costs or liabilities associated with the acquisition, including potential liabilities due to litigation and potential identified or unknown security vulnerabilities in acquired technologies that expose us to additional security risks or delay our ability to integrate the product into our offerings or recognize the benefits of our investment;
- differences between our values and those of an acquired company, as well as potential disruptions to our workplace culture;
- incurrence of acquisition-related costs, including costs related to integration activities;

- difficulty integrating the accounting and information systems, operations, and personnel of the acquired business;
- augmenting the acquired technologies and platforms to the levels that are consistent with our brand and reputation;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- challenges converting the acquired company's revenue recognition policies and forecasting the related revenues, including subscription-based revenues and software license revenues;
- potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- difficulty converting the customers of the acquired business onto our platform and contract terms;
- diversion of management's attention and other company resources;
- harm to our existing business relationships with business partners and customers as a result of the acquisition;
- the potential loss of key employees;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

We cannot assure you that the anticipated benefits of any acquisition or investment would be realized or that we would not be exposed to unknown liabilities or risks. Integrating an acquired technology, asset or business into our operations can be challenging, complex and costly and we cannot assure you that we will be successful or that the anticipated benefits of the acquisitions that we complete will be realized or outweigh their costs. If our integration and development efforts are not successful and the anticipated benefits of the acquisitions that we complete are not achieved, our business, operating results, financial condition, and prospects could be adversely affected.

In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures and values, and become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges. These challenges could adversely affect our business, operating results, financial condition, and prospects.

***Material adverse developments in domestic and global economic conditions, or the occurrence of other world events, could materially adversely affect Airship AI's revenue and results of operations.***

Various factors contribute to the uncertain economic environment, including the ongoing Russia-Ukraine war, the increase in, and volatility of, interest rates, high inflation, an actual recession or fears of a recession, trade policies and tariffs and geopolitical tensions. Our inability to offset price inflation in our materials, components, shipping, or labor through increased prices to customers with long-term fixed contracts and formula-based or long-term fixed price contracts with suppliers could adversely affect our business, financial condition and results of operations. Global supply chain and labor market challenges could also negatively affect our performance as well as the performance of our suppliers. Interest rate increases have also created financial market volatility and could further negatively impact financial markets, lead to an economic downturn or recession or have an adverse effect on our operating results. Economic slowdowns can also negatively impact municipal and state tax collections and put pressure on law enforcement budgets which may increase the risk that our customers will be unable to appropriate funds for existing or future contracts with us. In addition, geopolitical risks could affect our customers' budgets and policies. These and other factors may adversely affect customer demand and ability to pay, cause decrease in sales, and negatively impact the realizability of our accounts and notes receivable and contract assets.

***Catastrophic events could materially adversely affect Airship AI's business, results of operations and/or financial condition.***

A disruption or failure of our systems or operations in the event of a major earthquake, weather event, fire, explosion, failure to contain hazardous materials, industrial accident, utility failure, cyber-attack, terrorist attack, public health crisis, pandemic, or other catastrophic event could cause delays in completing sales, providing services, or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations and our operating results as well as expose us to claims, litigation and governmental investigations and fines.

If our backup and mitigation plans are not sufficient to minimize business disruption, our financial results could be adversely affected. We are continuously monitoring our operations and intend to take appropriate actions to mitigate the risks arising from catastrophic events, but there can be no assurances that we will be successful in doing so.

***If Airship AI fails to maintain effective internal control over financial reporting or identify a material weakness or significant deficiency in its internal control over financial reporting, Airship AI's ability to report its financial condition and results of operations in a timely and accurate manner could be adversely affected, investor confidence in Airship AI company could diminish, and the value of its stock may decline.***

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these processes may result in errors that may not be detected and could result in a material misstatement or other errors of our consolidated financial statements. Such errors may be more likely to occur when implementing new systems and processes, particularly when implementing evolving and complex accounting rules. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") requires, among other things, that as a publicly-traded company we disclose whether our internal control over financial reporting and disclosure controls and procedures are effective.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. While we continually undertake steps to improve our internal control over financial reporting as our business changes, we may not be successful in making the improvements and changes necessary to be able to identify and remediate control deficiencies or material weaknesses on a timely basis. If we are unable to successfully remediate any current or future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected; our liquidity, access to capital markets and perceptions of our creditworthiness may be adversely affected; we may be unable to maintain compliance with securities laws, stock exchange listing requirements and debt instruments covenants regarding the timely filing of periodic reports; we may be subject to regulatory investigations and penalties; investors may lose confidence in our financial reporting; we may suffer defaults under our debt instruments; and our stock price may decline.

***Changes in accounting principles or their application to Airship AI could result in unfavorable accounting charges or effects, which could adversely affect its results of operations and growth prospects.***

We prepare our consolidated financial statements in accordance with GAAP. In particular, we make certain estimates and assumptions related to the adoption and interpretation of these principles including the recognition of our revenue and the accounting for our provision for income taxes. If these assumptions turn out to be incorrect, our financial results and position could materially differ from our expectations and could be materially adversely affected. A change in any of these principles or guidance, or in their interpretations or application to us, may have a significant effect on our reported results, as well as our processes and related controls, and may retroactively affect previously reported results or our forecasts, which may negatively impact our financial statements.

***If Airship AI's judgments or estimates relating to its critical accounting policies are based on assumptions that change or prove to be incorrect, Airship AI's results of operations could fall below expectations of securities analysts and investors, resulting in a decline in its stock price.***

The preparation of our financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of Airship AI*" the results of which form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of the combined company's securities. Significant judgments, estimates, and assumptions used in preparing our consolidated financial statements include, or may in the future include, those related to revenue recognition and income taxes.

***Airship AI has limited insurance which may not cover claims by third parties against Airship AI or its officers and directors.***

We have directors' and officers' liability insurance and commercial liability insurance policies. Claims, however, by third parties against us may exceed policy amounts and we may not have amounts to cover these claims. Any significant claims would have a material adverse effect on our business, financial condition and results of operations. In addition, our limited directors' and officers' liability insurance may affect our ability to attract and retain directors and officers.

***Airship AI could be subject to additional tax liabilities.***

We are subject to federal, state, and local income taxes in the United States and numerous foreign jurisdictions. Determining our provision for income taxes requires significant management judgment, and the ultimate tax outcome may be uncertain. In addition, our provision for income taxes is subject to volatility and could be adversely affected by many factors, including, among other things, changes to our operating or holding structure, changes in the amounts of earnings in jurisdictions with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in U.S. and foreign tax laws. Moreover, we are subject to the examination of our income tax returns by tax authorities in the United States and various foreign jurisdictions, which may disagree with our calculation of research and development tax credits, cross-jurisdictional transfer pricing, or other matters and assess additional taxes, interest or penalties. While we regularly assess the likely outcomes of these examinations to determine the adequacy of our provision for income taxes and we believe that our financial statements reflect adequate reserves to cover any such contingencies, there can be no assurance that the outcomes of such examinations will not have a material impact on our results of operations and cash flows. If U.S. or other foreign tax authorities change applicable tax laws, our overall taxes could increase, and our financial condition or results of operations may be adversely impacted.

Under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses may be limited in certain circumstances, including a change in control. Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that the Company will be able to utilize any net operating loss carryforwards in the future.

Provisions enacted by the 2017 Tax Cuts and Jobs Act related to the capitalization for tax purposes of research and experimental ("R&E") expenditures became effective on January 1, 2022. Beginning January 1, 2022, all U.S. and non-U.S. based R&E expenditures must be capitalized and amortized over five years and 15 years, respectively.

Costs incurred in the development of software programs for Airship AI's products are charged to operations as incurred until technological feasibility of the software has been established. Generally, technological feasibility is established when the software module performs its primary functions described in its original specifications, contains features required for it to be usable in a production environment, is completely documented and the related hardware portion of the product is complete. After technological feasibility is established, any additional costs are capitalized. Capitalization of software costs ceases when the software is substantially complete and is ready for its intended use. No software development costs have been capitalized during the years ended or as of December 31, 2022 and 2021.

**Risks Related to Our Securities**

***Currently, our Common Stock and Public Warrants are listed on Nasdaq. However, there may not be enough liquidity in such market to enable stockholders to sell their securities.***

Currently, our Common Stock and Public Warrants are listed on The Nasdaq Global Market and The Nasdaq Capital Market, respectively. If a public market for our securities does not develop, investors may not be able to re-sell their Common Stock or Warrants, rendering their securities illiquid and possibly resulting in a complete loss of their investment. We cannot predict the extent to which investor interest in us will lead to the development of an active, liquid trading market. The trading price of and demand for the Common Stock and the development and continued existence of a market and favorable price for the Common Stock will depend on a number of conditions, including the development of a market following, including by analysts and other investment professionals, the businesses, operations, results, and prospects of the Company, general market and economic conditions, governmental actions, regulatory considerations, legal proceedings, and developments or other factors. These and other factors may impair the development of a liquid market and the ability of investors to sell shares at an attractive price. These factors also could cause the market price and demand for the Common Stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares and may otherwise affect negatively the price and liquidity of the Common Stock. Many of these factors and conditions are beyond the control of the Company or the stockholders.

***Our common stock price may be volatile.***

If a public trading market does develop for our Common Stock, its market price is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- the concentration of the ownership of our shares by a limited number of affiliated stockholders may limit interest in our securities;
- limited "public float" with a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for the Common Stock;
- additions or departures of key personnel;
- loss of a strategic relationship;
- variations in operating results from the expectations of securities analysts or investors;
- announcements of new products or services by us or our competitors;
- reductions in the market share of our products;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- investor perception of our industry or prospects;
- insider selling or buying;
- investors entering into short sale contracts;
- regulatory developments affecting our industry;
- changes in our industry;
- competitive pricing pressures;
- our ability to obtain working capital financing;
- our ability to execute our business plan;
- operating results that fall below expectations;
- revisions in securities analysts' estimates or reductions in security analysts' coverage; and
- economic and other external factors.

Many of these factors are beyond our control and may decrease the market price of the Common Stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for the Common Stock will be at any time, including as to whether the Common Stock will sustain current market prices, or as to what effect that the sale of shares or the availability of the Common Stock for sale at any time will have on the prevailing market price.

In addition, the securities markets have from time-to-time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of the Common Stock.

***Our executive officers and directors exercise significant control over us, which will limit your ability to influence corporate matters and could delay or prevent a change in corporate control.***

Victor Huang, Airship AI's co-Founder and our Chief Executive Officer, and Derek Xu, Airship AI's co-Founder and our Chief Operating Officer, beneficially own (including shares underlying Converted Warrants, Converted Stock Options and Converted SARs) approximately 62.3% of the combined voting power for the election of directors to the Board. As a result, these stockholders will be able to influence our management and affairs and control the outcome of matters submitted to our stockholders for approval, including the election of directors and any sale, merger, consolidation, or sale of all or substantially all of our assets.

These stockholders may have interests, with respect to their Common Stock, which are different from those of the public investors and the concentration of voting power among one or more of these stockholders may have an adverse effect on the price of the Common Stock.

In addition, this concentration of ownership might adversely affect the market price of the Common Stock by: (1) delaying, deferring or preventing a change of control; (2) impeding a merger, consolidation, takeover or other business combination involving us; or (3) discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

***The requirements of being a public company may strain the Company's resources and distract management and we will incur substantial costs as a result of being a public company.***

Following the consummation of the Business Combination, the Company is subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, and the Securities Act. These rules, regulations and requirements are extensive. We will incur significant costs associated with our public company corporate governance and reporting requirements. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire more corporate employees to comply with these requirements or engage outside consultants, which would increase our costs and expenses. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations. These applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and it may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on the Board or as executive officers.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

As a result of disclosure of information in this prospectus and in the filings that we are required to make as a public company, our business, operating results and financial condition have become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If any such claims are successful, our business, operating results and financial condition could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business, operating results and financial condition.

***Sales of a substantial amount of Common Stock in the public market, particularly sales by our executive officers, directors and significant stockholders, or the perception that these sales could occur, could cause the market price of Common Stock to decline.***

Sales of a substantial number of shares of Common Stock in the public market, particularly sales by our executive officers, directors and principal stockholders, or the perception that these sales might occur, could cause the market price of Common Stock to decline. Some of our executive officers, directors and the holders of a substantial number of shares of Common Stock are subject to lock-up provisions in our Bylaws in that, for a period of at least six months from the date of closing of the Business Combination, subject to certain exceptions, prohibit them from offering for sale, selling, contracting to sell, granting any option for the sale of, transferring or otherwise disposing of any shares of Common Stock and of any securities convertible into or exercisable for Common Stock, unless waived, amended, or repealed by the Board.

When the applicable lock-up periods expire, our security holders subject to lock-up provisions will be able to sell shares of Common Stock in the public market. In addition, the Board may, in its discretion, permit our security holders to sell shares prior to the expiration of the restrictive provisions contained in the Bylaws. Sales of a substantial number of such shares upon expiration of the lock-up provisions, the perception that such sales may occur or early release of these provisions could cause our market price to fall or make it more difficult for you to sell your shares of Common Stock at a time and price that you deem appropriate.

In addition, we may file a registration statement to register shares reserved for future issuance under our equity compensation plans. Subject to the satisfaction of applicable vesting requirements and expiration of the lock-up provisions referred to above, the shares issued upon exercise of outstanding stock options would be available for immediate resale in the open market.

A decline in the price of Common Stock could affect our ability to raise working capital and adversely impact our ability to continue operations.

A prolonged decline in the price of Common Stock could result in a reduction in the liquidity of the Common Stock and a reduction in our ability to raise capital. A decline in the price of Common Stock could be especially detrimental to our liquidity, operations and strategic plans. Such reductions may force us to reallocate funds from other planned uses and may have a significant negative effect on our business plan and operations, including our ability to develop new products and services and continue current operations. If our Common Stock's price declines, we can offer no assurance that we will be able to raise additional capital or generate funds from operations sufficient to meet our obligations. If we are unable to raise sufficient capital in the future, we may not be able to have the resources to continue our normal operations.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about us or our business, our Common Stock price and trading volume could decline.***

The trading market for our Common Stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on us. If no securities or industry analysts commence coverage of us, the trading price for our Common Stock would likely be negatively affected. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade our securities or publish inaccurate or unfavorable research about our business, our share price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us, demand for our Common Stock could decrease, which might cause the share price and trading volume to decline.

***We do not intend to pay any cash dividends in the foreseeable future and, therefore, any return on your investment in our capital stock must come from increases in the fair market value and trading price of the capital stock.***

We have not paid any cash dividends on Common Stock and do not intend to pay cash dividends on Common Stock in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and expansion of our business. Any credit agreements, which we may enter into with institutional lenders, may restrict our ability to pay dividends. Whether we pay cash dividends in the future will be at the discretion of the Board and will be dependent upon our financial condition, results of operations, capital requirements and any other factors that the Board decides is relevant. Therefore, any return on your investment in our capital stock must come from increases in the fair market value and trading price of the capital stock.

***The market price of our equity securities may be volatile, and you could lose a significant part of your investment.***

The market price of Common Stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this prospectus, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us. Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions, such as the ongoing Russia-Ukraine war, recessions, inflation, interest rate changes or international currency fluctuations, may negatively affect the market price of our Common Stock. In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

***If our shares become subject to the penny stock rules, it would become more difficult to trade our shares.***

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. If our common stock is no longer listed on a national securities exchange such as Nasdaq and if the price of our common stock is less than $5.00, our common stock may be deemed a penny stock. The penny stock rules require a broker-dealer, before a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that before effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive: (i) the purchaser's written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our common stock, and therefore stockholders may have difficulty selling their shares.

***We are a "smaller reporting company" and "emerging growth company" under the U.S. federal securities laws, and the reduced reporting requirements applicable to smaller reporting companies and emerging growth companies could make our common stock less attractive to investors.***

We are a "smaller reporting company" and an "emerging growth company" under U.S. federal securities laws. For as long as we continue to be a smaller reporting company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not smaller reporting companies, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. Furthermore, as an emerging growth company, we may take advantage of exemptions from certain reporting requirements including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and exemptions from the requirements of holding a non-binding advisory vote on executive compensation. Investors may not find our common stock attractive because we may rely on these exemptions and reduced disclosures. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain a smaller reporting company until the last day of the fiscal year in which (1) the market value of our common stock held by non-affiliates exceeds $250 million as of the prior June 30, or (2) our annual revenues exceeded $100 million during such completed fiscal year and the market value of our common stock held by non-affiliates exceeds $700 million as of the prior June 30.

We will remain an emerging growth company until the earlier of: (1) the last day of the fiscal year (a) following the fifth anniversary of the closing of BYTS' IPO, (b) in which we have total annual gross revenue of at least $1.23 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common equity that is held by non-affiliates exceeds $700 million as of the end of the prior fiscal year's second fiscal quarter; and (2) the date on which we have issued more than $1.00 billion in non-convertible debt securities during the prior three-year period.

***Anti-takeover provisions contained in our certificate of incorporation and bylaws could impair a takeover attempt.***

Our Charter and bylaws afford certain rights and powers to our board of directors that could contribute to the delay or prevention of an acquisition that it deems undesirable, including:

- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which may prevent stockholders from being able to fill vacancies on our board of directors;
- the requirement that a special meeting of stockholders may be called only by our board of directors or the chairman of the board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and

We are also subject other provisions of Delaware law that limit the ability of stockholders in certain situations to effect certain business combinations. Any of the foregoing provisions and terms that has the effect of delaying or deterring a change in control could limit the opportunity for stockholders to receive a premium for their shares of Common Stock, and could also affect the price that some investors are willing to pay for the Common Stock.

***Our certificate of incorporation provides, subject to limited exceptions, that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for certain stockholder litigation matters, which could limit stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or stockholders.***

Our Charter requires, to the fullest extent permitted by law, that derivative actions brought in our name, actions against directors, officers and employees for breach of fiduciary duty and other similar actions may be brought in the Court of Chancery in the State of Delaware or, if that court lacks subject matter jurisdiction, another federal or state court situated in the State of Delaware. These provisions will not apply to suits brought to enforce any liability or duty created by the Securities Act, the Exchange Act, or any other claim for which the federal courts have exclusive jurisdiction. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the forum provisions in the Charter. In addition, the our Charter and bylaws provide that, to the fullest extent permitted by law, claims made under the Securities Act must be brought in federal district court.

This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, other employees or stockholders, which may discourage lawsuits with respect to such claims and result in increased costs for investors to bring a claim. Alternatively, if a court were to find the choice of forum provision contained in the Charter to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition.

## USE OF PROCEEDS

All of the shares of Common Stock offered by the Selling Securityholders pursuant to this prospectus will be sold by the Selling Securityholders for their respective accounts. We will not receive any of the proceeds from these sales.

We may receive up to an aggregate of approximately $186,123,038 from the exercise of the outstanding Public Warrants (each of which is generally exercisable for $11.50 per share), approximately $4,761,127 from the exercise of the outstanding Converted Warrants (each of which is generally exercisable for $1.77 per share) and approximately $700,536 from the exercise of the outstanding Platinum Warrant (which is generally exercisable for $3.69717 per share), assuming the exercise in full of all such warrants for cash. There is no assurance that the holders of such warrants will elect to exercise any or all of their warrants. To the extent that Public Warrants or Platinum Warrant are exercised on a "cashless basis," the amount of cash we would receive from the exercise of the Public Warrants will decrease, potentially to zero. On February 2, 2024, the last reported sales price of our Common Stock was $1.50. The exercise price per share of the Public Warrants is $11.50, the exercise price per share of the Converted Warrants is $1.77 and the exercise price per share of the Platinum Warrant is $3.69717. The exercise price of the Public Warrants is significantly higher than the current market price of our Common Stock and accordingly, it is highly unlikely that holders of the Public Warrants will exercise their Public Warrants in the foreseeable future. Cash proceeds associated with the exercises of the Public Warrants, the Converted Warrants and the Platinum Warrant are dependent on our stock price and given the recent price volatility of our Common Stock and relative lack of liquidity in our stock, we may not receive any cash proceeds in relation to such outstanding warrants.

We expect to use the net proceeds received from the exercise of such warrants, if any, for working capital and general corporate purposes. Our management will have broad discretion over the use of proceeds from the exercise of such warrants. See "Plan of Distribution."

## MARKET INFORMATION OF OUR SECURITIES

### Market Information

Our Common Stock and Public Warrants are listed on The Nasdaq Global Market and The Nasdaq Capital Market, respectively, and began trading on Nasdaq under the symbols "AISP" and "AISPW," respectively, on December 22, 2023. On February 2, 2024, the last reported sales price of our Common Stock was $1.50 per share and the last reported sales price of our Public Warrants was approximately $0.06 per warrant. As of February 2, 2024, there were approximately 447 holders of record of our Common Stock, 13 holders of record of the Public Warrants, two holders of the Converted Warrants and one holder of the Platinum Warrant. Such numbers do not include beneficial owners holding our securities through nominee names.

### Dividend Policy

We have not paid any cash dividends on our Common Stock to date. The payment of cash dividends by us in the future will be dependent upon our revenues and earnings, if any, capital requirements and general financial condition. The payment of any dividends will be within the discretion of our board of directors.

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information presents the combination of financial information of BYTS and Airship AI, adjusted to give effect to the Business Combination and related transactions. The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses."

The unaudited pro forma condensed combined financial information filed as Exhibit 99.1 to the Current Report on Form 8-K filed with the SEC on December 28, 2023 has been corrected in this prospectus to classify a portion of the Earnout Shares as a liability.

On June 27, 2023, BYTS entered into the Merger Agreement, by and among BYTS, Merger Sub, and Airship AI. The Merger Agreement was amended on September 22, 2023.

The unaudited pro forma condensed combined balance sheet as of September 30, 2023, combines the unaudited historical condensed balance sheet of BYTS as of September 30, 2023, with the unaudited historical condensed consolidated balance sheet of Airship AI as of September 30, 2023, giving effect to the Business Combination, as if it had been consummated as of that date.

The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2023 combines the unaudited historical condensed statement of operations of BYTS for the nine months ended September 30, 2023 with the unaudited historical condensed consolidated statement of operations of Airship AI for the nine months ended September 30, 2023, giving effect to the Business Combination, as if it had been consummated as of January 1, 2022, the earliest period presented.

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2022 combines the audited historical statement of operations of BYTS for the year ended December 31, 2022 with the audited historical statement of operations of Airship AI for the year ended December 31, 2022, giving effect to the Business Combination, as if it had been consummated as of January 1, 2022, the earliest period presented.

The historical financial information has been adjusted to give pro forma effect to events that relate to material financing transactions consummated after September 30, 2023, and pro forma adjustments that are directly attributable to the Business Combination. The adjustments presented on the unaudited pro forma condensed combined financial statements have been identified and presented to provide relevant information necessary for an accurate understanding of the combined company upon consummation of the Business Combination.

The unaudited pro forma condensed combined financial information is for illustrative purposes only. The financial results may have been different had the companies always been combined. You should not rely on the unaudited pro forma condensed combined financial information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience. BYTS and Airship AI have not had any historical relationship prior to the Business Combination. Accordingly, no pro forma adjustments were required to eliminate activities between the companies. This information should be read together with the following:

- the historical unaudited condensed financial statements of BYTS as of and for the three and nine months ended September 30, 2023 and 2022;
- the historical unaudited condensed consolidated financial statements of Airship AI as of and for the nine months ended September 30, 2023 and 2022;
- the historical audited financial statements of BYTS as of December 31, 2022 and 2021, for the year ended December 31, 2022 and the period from January 8, 2021 (inception) through December 31, 2021;
- the historical audited consolidated financial statements of Airship AI as of and for the years ended December 31, 2022 and 2021;

- the sections titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of BYTS*," and "*Management's Discussion and Analysis of Financial Condition and Results of Operations of Airship AI*" and other financial information included in the prospectus filed on December 5, 2023 and supplemented on December 15, 2023; and

- other information relating to BYTS and Airship AI included in this proxy statement/prospectus filed on December 5, 2023 and supplemented on December 15, 2023, including the Merger Agreement and the description of certain terms thereof set forth under the section entitled "*The Business Combination.*"

**Description of the Business Combination**

*The Merger*

Effective as of December 21, 2023, subject to the conditions of the Merger Agreement, following the Domestication, Merger Sub merged with and into Airship AI, after which Airship AI became the Surviving Corporation and a wholly-owned subsidiary of BYTS. In connection with the Business Combination, BYTS was renamed "Airship AI Holdings, Inc."

*The Domestication*

On December 20, 2023, subject to the conditions of the Merger Agreement, BYTS de-registered from the Register of Companies in the Cayman Islands by way of continuation out of the Cayman Islands and into the State of Delaware so as to migrate to and domesticate as a Delaware corporation in accordance with Section 388 of the Delaware General Corporation Law, as amended, and Part XII of the Companies Act (Revised) of the Cayman Islands.

In connection with the Domestication, (x) prior to the Domestication, Sponsor surrendered to BYTS for no consideration the sole issued and outstanding BYTS Class B Ordinary Share and (y) at the effective time of the Domestication, (i) each then issued and outstanding BYTS Class A Ordinary Share, converted automatically, on a one-for-one basis, into one share of Airship Pubco Common Stock, (ii) each then issued and outstanding BYTS Warrant became one Airship Pubco Warrant exercisable for one share of Airship Pubco Common Stock pursuant to the Warrant Agreement, dated as of March 18, 2021, by and between BYTS and Continental Stock Transfer & Trust Company, as warrant agent, and (iii) each then issued and outstanding BYTS Unit separated and converted automatically into one share of Airship Pubco Common Stock and one-half of one Airship Pubco Warrant.

On December 13, 2023, BYTS formed a wholly-owned subsidiary in Nevada, BYTS NV Merger Sub, Inc. ("NV Merger Sub"), for the purpose of acquiring SILLC (E) Acquisition Corp., a Nevada corporation ("SILLC"), an entity subject to a bankruptcy proceeding that has no assets, no equity owners and no liabilities, except for claims of approximately 400 holders of allowed unsecured claims and a holder of allowed administrative expenses (collectively, the "Claim Holders"). On December 15, 2023, BYTS entered into an Agreement and Plan of Merger (the "SILLC Merger Agreement") by and among BYTS, NV Merger Sub, SILLC, and the other parties thereto, pursuant to which, immediately following the consummation of the Domestication and prior to the consummation of the Business Combination, NV Merger Sub merged with and into SILLC (the "SILLC Merger"), with SILLC surviving the SILLC Merger as a wholly-owned subsidiary of BYTS. SILLC became the successor and "Post Confirmation Debtor" pursuant to the bankruptcy plan. As a result of the SILLC Merger, and in accordance with the bankruptcy plan, Airship Pubco issued an aggregate of 150,000 shares of Airship Pubco Common Stock (the "Plan Shares") to the Claim Holders as full settlement and satisfaction of their respective claims, pursuant to Section 1145 of the U.S. Bankruptcy Code. The Sponsor forfeited an equal number of Sponsor Shares.

*Consideration and Structure*

Under the Merger Agreement, the Airship AI equityholders that held shares of Airship Common Stock, Airship Options, Airship Earnout Warrants or Airship SARs received an aggregate of 22.5 million shares of Airship Pubco Common Stock in exchange for all of Airship AI's outstanding equity interests.

The Merger Agreement also provides, among other things, that the Airship Earnout Holders have the contingent right to receive up to 5.0 million Earnout Shares assuming the Airship Earnout Holders comply with various terms and conditions of the agreement, and the following performance and market based contingencies are achieved:

(A) 25% of the Earnout Shares if, for the period starting on the Closing Date and ending on the last day of the full calendar quarter immediately following the first anniversary of the Closing Date, (1) Company Revenue is at least $39 million, or (2) the aggregate value of new contract awards (including awards obtained through purchase orders) with federal law enforcement agencies (whether such awards are obtained directly or through intermediaries) has grown by at least 100% as compared to the year-over-year amount for the twelve-month period ending on the date of the Merger Agreement;

(B) 75% of the Earnout Shares if, for the period starting on the Closing Date and ending on the last day of the full calendar quarter immediately following the third anniversary of the Closing Date, Company Revenue is at least $100 million;

(C) 50% of the Earnout Shares if, at any time during the period starting on the Closing Date and ending on the fifth anniversary of the Closing Date, over any twenty (20) trading days within any thirty (30) trading day period the VWAP of the Airship Pubco Common Stock is greater than or equal to $12.50 per share; and

(D) 50% of the Earnout Shares if, at any time during the period starting on the Closing Date and ending on the fifth anniversary of the Closing Date, over any twenty (20) trading days within any thirty (30) trading day period the VWAP of the Airship Pubco Common Stock is greater than or equal to $15.00 per share.

For the avoidance of doubt, the Company Earnout Holders shall be entitled to earn Earnout Shares upon the occurrence of each Earnout Milestone (or a Change of Control) during the Applicable Earnout Period; provided, however, that each Earnout Milestone (or a Change of Control if applicable) shall only occur once, if at all, and in no event shall the Company Earnout Holders be entitled to earn more than 5,000,000 Earnout Shares in the aggregate (subject to adjustment as set forth in the Merger Agreement).

Notwithstanding anything in the Merger Agreement to the contrary, any Earnout Shares issuable under the Merger Agreement to a Company Earnout Holder in respect of each Company Option or Company SAR held by such Company Earnout Holder as of immediately prior to the Effective Time shall be earned by such Company Earnout Holder on the later of (i) the occurrence of the applicable Earnout Milestone, and (ii) the date on which the Converted Stock Option in respect of such Company Option or Converted SAR in respect of such Company SAR becomes vested pursuant to its applicable vesting schedule, but only if such Company Earnout Holder continues to provide services (whether as an employee, director or individual independent contractor) to Parent or one of its Subsidiaries through such date. Notwithstanding the foregoing, any Earnout Shares that are not earned by a Company Earnout Holder in respect of its Company Options or Company SARs on or before the fifth anniversary of the Closing Date shall be forfeited without any consideration. Any Earnout Shares that are forfeited pursuant to the Merger Agreement shall be reallocated to the other Company Earnout Holders who remain entitled to receive Earnout Shares in accordance with their respective Earnout Pro Rata Shares.

Pursuant to the Merger Agreement, at the Effective Time, each Airship Option that was outstanding as of immediately prior to the Effective Time (whether vested or unvested) converted into (i) a Converted Stock Option, and (ii) the right to receive a number of Earnout Shares in accordance with, and subject to, the contingencies set forth in the Merger Agreement. At the Effective Time, Airship Pubco assumed all obligations of Airship with respect to each Converted Stock Option.

Pursuant to the Merger Agreement, at the Effective Time, each Airship SAR that was outstanding immediately before the Effective Time (whether vested or unvested) was assumed by Airship Pubco and converted into a Converted SAR. Each Converted SAR continued to have and be subject to substantially the same terms and conditions as were applicable to such Airship SAR immediately before the Effective Time (including expiration date, vesting conditions, and exercise provisions), except that (i) each Converted SAR covered that number of shares of Airship Pubco Common Stock equal to (A) the product (rounded down to the nearest whole number) of (1) the number of shares of Airship Common Stock subject to the Airship SAR immediately before the Effective Time and (2) the Conversion Ratio and (B) a number of Earnout Shares in accordance with, and subject to, the contingencies set forth in the Merger Agreement, and (ii) the per share base value for each share of Airship Pubco Common Stock covered by the Converted SAR equaled to the quotient (rounded up to the nearest whole cent) obtained by dividing (A) the base value per share of Airship Common Stock of such Airship SAR immediately prior to the Effective Time by (B) the Conversion Ratio. At the Effective Time, Airship Pubco assumed all obligations of Airship AI with respect to each Converted SARs.

Pursuant to the Merger Agreement, at the Effective Time, all of the Airship Warrants converted into (i) a Converted Warrant and (ii) with respect to each Airship Earnout Warrant, the right to receive a number of Earnout Shares in accordance with, and subject to, the contingencies set forth in the Merger Agreement. At the Effective Time, Airship Pubco assumed all obligations of Airship AI with respect to any Converted Warrants.

The Proposed Bylaws provide that the shares of Airship Pubco Common Stock issued to all holders of Airship Common Stock, Airship Options, Airship Earnout Warrants and Airship SARs as the Aggregate Merger Consideration will be subject to a lock-up for a period of 180 days following the Closing, and that the shares of Airship Pubco Common Stock issued to such holders upon satisfaction of the First Operating Performance Milestone (if any) will be subject to a 12-month lock-up period beginning on the date such shares are issued, unless waived, amended or repealed by the unanimous approval of the Airship Pubco Board; provided, further, that the lockup obligations set forth in Airship Pubco's bylaws will not apply to the lock-up shares of any lock-up holder that have been released from the lock-up obligations set forth therein in writing by the Company prior to the Closing Date.

*Parent Support Agreement*

In connection with the execution of the Merger Agreement, BYTS entered into the Parent Support Agreement with the Sponsor and Airship AI, pursuant to which the Sponsor agreed to, among other things, (a) to forfeit 1,000,000 BYTS Class A Ordinary Shares owned by the Sponsor on the Closing Date and (b) to make the Share Contribution of 2,600,000 BYTS Class A Ordinary Shares to secure non-redemption agreements and/or PIPE Financing. The Parent Support Agreement also provides that the Sponsor Shares will be subject to a lock-up for a period of 180 days following the Closing.

*Non-Redemption Agreements*

On August 1, 2023, BYTS entered into a Non-Redemption Agreement with the Sponsor pursuant to which the Sponsor agreed to acquire from shareholders of BYTS $6 million in aggregate value of Public Shares, either in the open market or through privately negotiated transactions, at a price no higher than the redemption price per share payable to Public Shareholders who exercise Redemption Rights with respect to their Public Shares, prior to the closing date of the Business Combination, to waive its Redemption Rights and hold the Public Shares through the closing date of the Business Combination, and to abstain from voting and not vote the Public Shares in favor of or against the Business Combination. As consideration for the Non-Redemption Agreement, BYTS agreed to pay the Sponsor $0.033 per Public Share per month, which will begin accruing on the date that is three days after the date of the Non-Redemption Agreement and terminate on the earlier of the closing date of the Business Combination, the termination of the Merger Agreement, or the Outside Closing Date (as defined in the Merger Agreement). Additionally, on August 1, 2023, BYTS entered into a Non-Redemption Agreement with the Non-Redeeming Shareholder holding Public Shares, pursuant to which the Non-Redeeming Shareholder agreed not to redeem $1 million in aggregate value of Public Shares held by it on the date of the Non-Redemption Agreement in connection with the Business Combination. The Non-Redeeming Shareholder is an investor in our Sponsor and, other than indirectly through its interest in our Sponsor, the Non-Redeeming Shareholder did not receive any separate consideration for such waiver.

*Earnout Escrow Agreement*

On December 21, 2023, the Company and Continental Stock Transfer & Trust Company entered in to an earnout escrow agreement (the "Earnout Escrow Agreement"), effective as of the Closing. The Earnout Escrow Agreement provides, among other things, that the Earnout Shares will be placed in escrow and will not be released from escrow until they are earned as a result of the occurrence of, as applicable, the First Operating Performance Milestone, the Second Operating Performance Milestone, the First Share Price Performance Milestone, and/or the Second Share Price Performance Milestone.

**Anticipated Accounting Treatment**

The Business Combination was accounted for as a reverse recapitalization in accordance with GAAP. Under this method of accounting, BYTS, who was the legal acquirer, was treated as the "acquired" company for accounting purposes and Airship AI was treated as the accounting acquirer. Accordingly, the Business Combination was treated as the equivalent of Airship AI issuing shares at the closing of the Business Combination for the net assets of BYTS as of the closing date, accompanied by a recapitalization. The net assets of BYTS was stated at historical cost, with no goodwill or other intangible assets recorded.

Airship AI was determined to be the accounting acquirer based on evaluation of the following facts and circumstances:

- Airship AI's stockholders have the majority voting interest in the combined company;
- The Airship Pubco Board is composed of one (1) director designated by BYTS and four (4) directors designated by Airship AI;
- Airship AI's senior management is the senior management of Airship Pubco;
- The business of Airship AI comprises the ongoing operations of Airship Pubco; and
- Airship AI is the larger entity, in terms of substantive assets.

**Basis of Pro Forma Presentation**

The unaudited pro forma condensed combined financial information has been prepared reflecting the actual redemptions as follows:

- *Actual Redemptions:* This scenario reflects that 1,068,187 Public Shares were redeemed for their pro rata share of the cash in the Trust Account. This resulted in a payment of approximately $11.55 million upon consummation of the Business Combination at a redemption price of approximately $10.81 per share.

The following summarizes the purchase consideration reflecting the actual redemptions:

| | | |
|---|---|---|
| Total shares transferred[(1)] | | 13,387,384 |
| Value per share[(2)] | $ | 10.00 |
| **Total share consideration** | **$** | **133,873,839** |
| Options exchanged[(3)] | | 46,646,100 |
| SARs exchanged[(4)] | | 17,581,052 |
| Warrants exchanged[(5)] | | 26,899,009 |
| **Total equity value[(6)]** | **$** | **225,000,000** |

(1) Total shares transferred do not include Airship AI options, SARs or Warrants. See notes (3), (4) and (5) directly below for further information on these instruments.

(2) Value per share is calculated using a $10.00 per-share reference price. As the Business Combination will be accounted for as a reverse recapitalization, the value per share is disclosed for informational purposes only in order to indicate the fair value of shares transferred.

(3) Options exchanged represents the conversion of Airship AI options and SARs into Airship Pubco options and SARs in accordance with the Merger Agreement. These options are not assumed to be exercised for the purposes of the unaudited pro forma condensed combined financial information and, therefore, have not been included in Total share consideration. The value of the options represents the number of shares that would be issued under the option agreements assuming full cash exercise. Those shares are valued at the $10.00 per-share reference price.

(4) SARs exchanged represents the conversion of Airship AI SARs into Airship Pubco SARs in accordance with the Merger Agreement. These SARs are not assumed to be exercised for the purposes of the unaudited pro forma condensed combined financial information and, therefore, have not been included in Total share consideration. The value of the SARs represents the number of shares that would be issued under the SARs agreements assuming full cash exercise. Those shares are valued at the $10.00 per-share reference price.

(5) Warrants exchanged represents the conversion of Airship AI warrants into Airship Pubco Warrants in accordance with the Merger Agreement. These warrants are not assumed to be exercised for the purposes of the unaudited pro forma condensed combined financial information and, therefore, have not been included in Total share consideration. The value of the warrants represents the number of shares that would be issued under the warrant agreements assuming full cash exercise. Those shares are valued at the $10.00 per-share reference price.

(6) Total equity value includes the value of the exchanged options and warrants assuming full cash exercise of all such instruments. The total equity value is equal to the Equity Value of $225.0 million outlined in the Merger Agreement.

The following summarizes the pro forma shares of Airship Pubco Common Stock outstanding reflecting the actual redemptions:

| | Actual Redemptions (Shares) | % |
|---|---|---|
| BYTS Public Shareholders[1] | 106,330 | 0.5% |
| Non-Redemption Agreement Holders[2] | 3,263,076 | 14.6% |
| BYTE NV Shareholders[4] | 150,000 | 0.7% |
| Sponsor[3] | 5,372,312 | 24.1% |
| Total BYTS Shares | 8,891,718 | 39.9% |
| Existing Airship AI Shareholders | 13,387,384 | 60.1% |
| **Pro Forma Airship Pubco Common Stock at September 30, 2023[5]** | 22,279,102 | 100.0% |

(1) Excludes (i) 570,555 Public Shares acquired by the Sponsor from the Public Shareholders in order to comply with the Non-Redemption Agreement to purchase $6 million worth of shares from either the open market or a private arrangement and (ii) approximately 92,521 Public Shares held by the Non-Redeeming Shareholder at an assumed price of $10.81 pursuant to the Non-Redeeming Shareholder's agreement not to redeem $1 million in aggregate value of Public Shares held by it.

(2) Reflects 570,555 Public Shares purchased by the Sponsor pursuant to the Non-Redemption Agreement and approximately 92,521 Public Shares held by the Non-Redeeming Shareholder at an assumed price of $10.81 pursuant to the Non-Redeeming Shareholder's agreement not to redeem $1 million in aggregate value of Public Shares held by it and 2,600,000 shares transferred from Sponsor to Non-Redeeming Shareholders as compensation to enter into Non-Redemption Agreements.

(3) Excludes 1,000,000 shares held by the Sponsor. The Sponsor agreed (a) to forfeit 1,000,000 BYTS Class A Ordinary Shares owned by the Sponsor on the Closing Date and (b) to make the Share Contribution of 2,600,000 BYTS Class A Ordinary Shares to secure non-redemption agreements and/or PIPE Financing. Also excludes 570,555 Public Shares acquired by the Sponsor from the Public Shareholders in order to comply with the Non-Redemption Agreement to purchase $6 million worth of shares from either the open market or a private arrangement.

(4) Includes 150,000 shares transferred from Sponsor to the claim holders of BYTE NV in full settlement of any claims.

(5) Excludes all Airship AI options (including vested Airship AI options), Airship AI SARs, Airship AI shares issuable under convertible notes, and Airship AI warrants as they were not outstanding common stock at the time of Closing. Also excludes the 16,699,626 warrants outstanding to acquire BYTS Class A Ordinary Shares. These warrants converted into warrants to acquire Airship Pubco Common Stock at Closing.

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**
**AS OF SEPTEMBER 30, 2023**

| | Airship AI (Historical)[A] | Byte (Historical)[B] | Transaction Accounting Adjustments (Actual Redemptions) | | Pro Forma Combined (Actual Redemptions) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 482,373 | $ 18,752 | $ 8,121,895 | **(1)** | $ 3,456,397 |
| | | | (4,685,225) | **(4)** | |
| | | | (340,838) | **(6)** | |
| | | | (140,560) | **(8)** | |
| Accounts receivable, net of provision for credit losses of $0 | 600,938 | — | — | | 600,938 |
| Prepaid expenses and other | 16,334 | 20,190 | 894,662 | **(4)** | 931,186 |
| Payroll and income tax receivable | 7,230 | — | — | | 7,230 |
| Total Current Assets | 1,106,875 | 38,942 | 3,849,934 | | 4,995,751 |
| | | | | | |
| Property and equipment, net | 5,580 | — | — | | 5,580 |
| Operating lease right of use asset | 25,974 | — | — | | 25,974 |
| Other assets | 255,431 | — | — | | 255,431 |
| Investments held in Trust Account | — | 25,254,705 | (13,709,278) | **(1)** | — |
| | | | (11,545,427) | **(2)** | |
| **Total Assets** | **$ 1,393,860** | **$ 25,293,647** | **$ (21,404,771)** | | **$ 5,282,736** |
| | | | | | |
| **Liabilities and Stockholders' Equity** | | | | | |
| **Current Liabilities** | | | | | |
| Accounts payable – trade | $ 592,199 | $ 184,322 | $ (275,000) | **(4)** | $ 501,521 |
| Advances from founders | 1,750,000 | — | — | | 1,750,000 |
| Accrued expenses | 112,700 | — | 3,375,000 | **(4)** | 3,487,700 |
| Current portion of Senior Secured Convertible Promissory Note | 2,385,503 | — | — | | 2,385,503 |
| Current Portion of operating lease liability | 26,844 | — | — | | 26,844 |
| Deferred revenue – current portion | 4,059,406 | — | — | | 4,059,406 |
| Advances from related party | — | 140,560 | (140,560) | **(8)** | — |
| Non-redemption agreement liability | — | 250,243 | (250,243) | **(6)** | — |
| Non-redemption agreement liability – related party | — | 37,657 | (37,657) | **(6)** | — |
| Accrued expenses | — | 2,454,277 | (2,019,438) | **(4)** | 434,839 |
| Total current liabilities | 8,926,652 | 3,067,059 | 652,102 | | 12,645,813 |
| | | | | | |
| Deferred revenue – non-current | 4,693,897 | — | — | | 4,693,897 |
| Redemption payable | — | 5,587,383 | (5,587,383) | **(1)** | — |
| Derivative warrant liability | — | 3,840,914 | — | | 3,840,914 |
| Earnout liability | — | — | 46,243,636 | **(11)** | 46,243,636 |
| Deferred underwriting fee payable | — | 11,329,238 | (11,329,238) | **(7)** | — |
| **Total Liabilities** | **13,620,549** | **23,824,594** | **29,979,117** | | **67,424,260** |
| | | | | | |
| Common stock subject to possible redemption | — | 19,567,322 | (8,021,895) | **(3)** | — |
| | | | (11,545,427) | **(2)** | |
| | **—** | **19,567,322** | **(19,567,322)** | | **—** |

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET — (Continued)**
**AS OF SEPTEMBER 30, 2023**

| | Airship AI (Historical)[A] | Byte (Historical)[B] | Transaction Accounting Adjustments (Actual Redemptions) | | Pro Forma Combined (Actual Redemptions) |
|---|---|---|---|---|---|
| **Stockholders' Deficit** | | | | | |
| Class A Common stock | — | 912 | (912) | **(5)** | — |
| Common stock | 44,666 | — | 77 | **(3)** | 2,228 |
| | | | (44,666) | **(5)** | |
| | | | 1,876 | **(5)** | |
| | | | 15 | **(9)** | |
| | | | 260 | **(10)** | |
| Additional paid-in capital | 4,537,370 | — | 8,021,818 | **(3)** | — |
| | | | (10,872,953) | **(5)** | |
| | | | (15) | **(9)** | |
| | | | (260) | **(10)** | |
| | | | (1,685,960) | **(11)** | |
| Accumulated deficit | (16,796,375) | (18,099,181) | (4,871,125) | **(4)** | (62,131,402) |
| | | | 10,916,655 | **(5)** | |
| | | | (52,938) | **(6)** | |
| | | | 11,329,238 | **(7)** | |
| | | | (44,557,676) | **(11)** | |
| Accumulated other comprehensive loss | (12,350) | — | — | | (12,350) |
| **Total Stockholders' Deficit** | **(12,226,689)** | **(18,098,269)** | **(31,816,566)** | | **(62,141,524)** |
| **Total Liabilities and Stockholders' Deficit** | **$ 1,393,860** | **$ 25,293,647** | **$ (21,404,771)** | | **$ 5,282,736** |

(A) Derived from the unaudited consolidated balance sheet of Airship AI.
(B) Derived from the unaudited balance sheet of Byte.

See accompanying notes to the unaudited pro forma condensed combined financial information.

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**
**NINE MONTHS ENDED SEPTEMBER 30, 2023**

| | (A) Airship AI (Historical) | (B) Byte (Historical) | Transaction Accounting Adjustments (Actual Redemptions) | | Pro Forma Combined (Actual Redemptions) |
|---|---|---|---|---|---|
| Net revenue | **$ 8,092,971** | **$ —** | **$ —** | | **$ 8,092,971** |
| Cost of net revenue | 4,013,433 | — | — | | 4,013,433 |
| Gross profit | 4,079,538 | — | — | | 4,079,538 |
| **Operating expenses:** | | | | | |
| Research and development expenses | 2,028,081 | — | — | | 2,028,081 |
| Selling, general and administrative expenses | 8,067,343 | — | — | | 8,067,343 |
| General and administrative – related party | — | 90,000 | — | | 90,000 |
| General and administrative | — | 3,289,510 | 378,812 | **(3)** | 3,668,322 |
| Total operating loss | (10,095,424) | (3,379,510) | (378,812) | | (13,853,746) |
| **Loss from operations** | (6,015,886) | (3,379,510) | (378,812) | | (9,774,208) |
| | | | | | |
| Other income (loss) | (408,346) | | | | (408,346) |
| Change in fair value of warrant liabilities | — | (2,504,864) | — | | (2,504,864) |
| Interest earned in Trust Account | — | 3,720,218 | (3,720,218) | **(1)** | — |
| Interest and dividend expense | (57,830) | 17,445 | | | (40,385) |
| **(Loss) income before taxes** | **(6,482,062)** | **(2,146,711)** | **(4,099,030)** | | **(12,727,803)** |
| Income tax expense | — | — | — | | — |
| **Net (loss) income** | **$ (6,482,062)** | **$ (2,146,711)** | **$ (4,099,030)** | | **$ (12,727,803)** |
| **Other comprehensive loss** | | | | | |
| Foreign currency translation loss | (2,244) | — | — | | (2,244) |
| **Total comprehensive loss** | **$ (6,484,306)** | **$ (2,146,711)** | **$ (4,099,030)** | | **$ (12,730,047)** |
| | | | | | |
| Weighted average shares outstanding, basic and diluted | 7,614,666 | 19,713,543 | 2,565,559 | | 22,279,102 |
| **Basic and diluted net income (loss) per share** | **$ (0.85)** | **$ (0.11)** | | | **$ (0.57)** |
| Weighted average shares outstanding, diluted | 7,614,666 | 19,713,543 | 2,565,559 | | 22,279,102 |
| **Diluted net (loss) income per share** | **$ (0.85)** | **$ (0.11)** | | | **$ (0.57)** |

(A) Derived from the unaudited statement of operation and comprehensive loss of Airship AI for the nine months period ended September 30, 2023.
(B) Derived from the income statement of BYTS for the nine month period ended September 30, 2023.

See accompanying notes to the unaudited pro forma condensed combined financial information.

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**
**YEAR ENDED DECEMBER 31, 2022**

| | (C) Airship AI (Historical) | (D) Byte (Historical) | Transaction Accounting Adjustments (Actual Redemptions) | | Pro Forma Combined (Actual Redemptions) |
|---|---|---|---|---|---|
| Net revenue | **$ 14,549,141** | **$ —** | **$ —** | | **$ 14,549,141** |
| Cost of net revenue | 6,128,128 | — | — | | 6,128,128 |
| Gross profit | 8,421,013 | — | — | | 8,421,013 |
| Operating expenses: | | | | | |
| Research and development expenses | 3,614,814 | — | — | | 3,614,814 |
| Selling, general and administrative expenses | 7,630,012 | | | | 7,630,012 |
| General and administrative – related party | | 120,000 | | | 120,000 |
| General and administrative | | 1,277,009 | 4,374,413 | **(2)** | 6,156,505 |
| | | | 505,083 | **(3)** | |
| Total Operating expenses | (11,244,826) | (1,397,009) | (4,879,496) | | (17,521,331) |
| **Loss from operations** | (2,823,813) | (1,397,009) | (4,879,496) | | (9,100,318) |
| | | | | | |
| Interest income | 42,565 | — | — | | 42,565 |
| Interest expense | (75,256) | — | — | | (75,256) |
| Other income – PPP loan forgiveness | 1,146,235 | — | — | | 1,146,235 |
| Other income – employee retention tax credit | 1,232,776 | — | — | | 1,232,776 |
| Change in fair value of warrant liabilities | — | 7,518,520 | — | | 7,518,520 |
| Interest income – bank | — | — | — | | — |
| Interest earned in Trust Account | — | 4,509,453 | (4,509,453) | **(1)** | — |
| **(Loss) income before taxes** | **(477,493)** | **10,630,964** | **(9,388,949)** | | **764,522** |
| Income tax expense | (10,000) | — | — | | (10,000) |
| **Net (loss) income** | **$ (487,493)** | **$ 10,630,964** | **$ (9,388,949)** | | **$ 754,522** |
| **Other comprehensive loss** | | | | | |
| Foreign currency translation loss | **(10,106)** | — | — | | (10,106) |
| **Total comprehensive (loss) income** | **$ (497,599)** | **$ 10,630,964** | **$ (9,388,949)** | | **$ 744,416** |
| | | | | | |
| Weighted average shares outstanding, basic and diluted | 7,614,666 | 41,491,564 | (19,212,462) | | 22,279,102 |
| **Basic and diluted net income** (loss) per share | **$ (0.06)** | **$ 0.26** | | | **$ 0.03** |
| Weighted average shares outstanding, diluted | 7,614,666 | 41,491,564 | (19,212,462) | | 22,279,102 |
| **Diluted net (loss) income per share** | **$ (0.06)** | **$ 0.26** | | | **$ 0.03** |

(C) Derived from the audited statements of operation and comprehensive loss of Airship for the year ended December 31, 2022.
(D) Derived from the audited income statement of BYTS for the year ended December 31, 2022.

See accompanying notes to the unaudited pro forma condensed combined financial information.

**NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION**
**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The unaudited pro forma condensed combined financial information has been adjusted to give effect to transaction accounting adjustments related to the Business Combination linking the effects of the Business Combination to the historical financial information.

The Business Combination was accounted for as a reverse recapitalization in accordance with the Financial Accounting Standards Board's Accounting Standards Codification Topic 805, Business Combinations. Airship AI was determined to be the accounting acquirer. Under the reverse recapitalization model, the Business Combination was treated as Airship AI issuing equity for the net assets of BYTS, with no goodwill or intangible assets recorded.

The pro forma adjustments have been prepared as if the Business Combination had been consummated on September 30, 2023, in the case of the unaudited pro forma condensed combined balance sheet, and on January 1, 2022, the beginning of the earliest period presented, in the case of the unaudited pro forma condensed combined statements of operations.

The pro forma condensed combined balance sheet as of September 30, 2023, has been prepared using the following:

- Airship AI's historical unaudited condensed consolidated balance sheet as of September 30, 2023, as included elsewhere in this proxy statement/prospectus.
- BYTS's historical unaudited condensed balance sheet as of September 30, 2023, as included elsewhere in this proxy statement/prospectus.

The pro forma condensed combined statement of operations for the nine months ended September 30, 2023, has been prepared using the following:

- Airship AI's historical unaudited condensed consolidated statement of operations for the nine months ended September 30, 2023, as included in proxy statement/prospectus as filed on December 5, 2023 and supplemented on December 15, 2023.
- BYTS's historical unaudited condensed statement of operations for the nine months ended September 30, 2023, as included in proxy statement/prospectus as filed on December 5, 2023 and supplemented on December 15, 2023.

The pro forma combined statement of operations for the year ended December 31, 2022, has been prepared using the following:

- Airship AI's historical consolidated statement of operations for the period year ended December 31, 2022, as included in proxy statement/prospectus as filed on December 5, 2023 and supplemented on December 15, 2023.

- BYTS's historical condensed statement of operations for the year ended December 31, 2022, as included in proxy statement/prospectus as filed on December 5, 2023 and supplemented on December 15, 2023.

The adjustments presented in the unaudited pro forma condensed combined financial information have been identified and presented to provide relevant information necessary for an accurate understanding of Airship Pubco after giving effect to the Business Combination. Management has made significant estimates and assumptions in its determination of the pro forma adjustments. As the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final amounts recorded may differ materially from the information presented.

The Public Warrants issued in connection with BYTS Initial Public Offering (including sale of the Over-Allotment Units) and the Private Placement Warrants have been historically recognized as derivative liabilities in accordance with ASC 815. The terms of the warrants were reviewed in connection with the preparation of the pro forma and concluded that there were no elements that would cause a different accounting treatment. Accordingly, the warrant instruments will remain as liabilities at fair value and adjusts the instruments to fair value at each reporting period subsequent to the Business Combination.

The pro forma adjustments reflecting the consummation of the Business Combination are based on certain currently available information and certain assumptions and methodologies that management believes are reasonable under the circumstances. The unaudited condensed pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments and it is possible the difference may be material. Management believes that its assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Business Combination based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Business Combination taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of the post-combination company. They should be read in conjunction with the historical financial statements and notes thereto of Airship AI and BYTS.

**2. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2023**

The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786, "Amendments to Financial Disclosures about Acquired and Disposed Businesses." Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction ("Transaction Accounting Adjustments") and present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur ("Management's Adjustments"). BYTS has elected not to present Management's Adjustments and will only be presenting Transaction Accounting Adjustments in the unaudited pro forma condensed combined financial information.

The Transaction Accounting Adjustments included in the unaudited pro forma condensed combined balance sheet as of September 30, 2023 are as follows:

(1) To reflect the release of cash from investments held in the Trust Account and the payoff of the redemptions of $5.59 million in connection with the Second Extension Meeting held on September 22, 2023 for 525,624 BYTS Class A Ordinary Shares exercised their right to redeem their shares for approximately $10.63 per shares.

(2) To reflect the redemptions in connection with vote to approve the Business Combination, shareholders holding an aggregate of 1,068,187 BYTS Class A Ordinary Shares exercised their right to redeem their shares for approximately $10.81 per share of the funds held in the Trust Account for approximately $11.55 million.

(3) To reflect the transfer of share that did not redeem into permanent equity for the 769,406 Class A ordinary shares that remain.

(4) To record an aggregate of $4.87 million of estimated transaction cost consisting of legal, financial advisory and other professional fees related to the Business Combination and a prepaid D&O policy of $0.89 million. Out of the $4.87 million estimated transaction costs, $3.38 million remain payable to bankers currently represents 1.5% of the consideration paid of $225 million which is being negotiated, as such this resulted in $4.69 million paid with cash. The total amount expensed is $4.87 million ($8.06 million of estimated transaction costs, less $2.02 million already accrued by BYTS and $0.28 million already accrued by Airship, less $0.89 million capitalized as prepaid expense).

(5) To reflect the recapitalization of Airship AI through (a) the contribution of all the share capital in Airship AI to Airship Pubco Common Stock (b) the issuance of 13,387,384 Airship Pubco shares (c) the forfeiture of 1,000,000 shares in connection with the Sponsor Support Agreement at Closing (d) the surrender of the Class B Ordinary Share of BYTS and (e) the elimination of the historical accumulated deficit of BYTS of $10.92 million, the legal acquiree consisting of $18.10 million historical accumulated deficit as of September 30, 2023 plus the waived underwriting fee of $11.33 million discussed in adjustment 7 below and the transaction cost totaling $0.77 million.

| | | |
|---|---|---|
| Class A ordinary shares reconciliation: | | |
| Class B converted to Class A at par | $ | 912 |
| Issuance of 13,387,384 shares at par | | 1,339 |
| Forfeiture of Sponsor Class A share at par | | (375) |
| Total Class A ordinary shares adjustment at par | $ | 1,876 |
| | | |
| BYTS historical accumulated deficit elimination reconciliation in millions: | | |
| Historical accumulated deficit | $ | 18.10 |
| BYTS waived underwriting fee | | (11.33) |
| BYTS transaction cost settled in cash | | 2.79 |
| BYTS transaction cost settled included in accrued expenses | | 3.38 |
| Accrued transaction cost included in balance sheet | | (2.02) |
| Total eliminated historical accumulated deficit | $ | 10.92 |
| Less historical Airship capital to be recapitalized | $ | (0.04) |
| Net impact to additional paid in capital | $ | 10.88 |

(6) To record the payment pursuant to the two non-redemption agreements, pursuant to which each of the non-redeeming shareholders agreed to (a) not redeem 1,000,000 Public Shares held by each party on the date of the non-redemption agreements in connection with the vote to amend BYTS' Amended and Restated Memorandum and Articles of Association to extend the date by which BYTS has to consummate an initial Business Combination from March 23, 2023 to September 25, 2023 (the "First Extension" and such extended date, the "Extended Date") and (b) vote their Public Shares in favor of the Extension presented by BYTS for approval by its shareholders. In connection with the foregoing, BYTS agreed to pay to each non-redeeming shareholder $0.033 per Share in cash, total amount paid at closing in connection with the Non-Redemption Agreements was $340,838.

***Additional Non-Redemption Agreements***

On August 1, 2023, BYTS entered into a Non-Redemption Agreement with the Sponsor pursuant to which the Sponsor agreed to acquire from shareholders of BYTS $6 million in aggregate value of Public Shares, either in the open market or through privately negotiated transactions, at a price no higher than the redemption price per share payable to Public Shareholders who exercise Redemption Rights with respect to their Public Shares, prior to the Closing Date of the Business Combination, to waive its Redemption Rights and hold the Public Shares through the closing date of the Business Combination, and to abstain from voting and not vote the Public Shares in favor of or against the Business Combination. As consideration for the Non-Redemption Agreement, BYTS agreed to pay the Sponsor $0.033 per Public Share per month, which will begin accruing on the date that is three days after the date of the Non-Redemption Agreement and terminate on the earlier of the closing date of the Business Combination, the termination of the Merger Agreement, or the Outside Closing Date (as defined in the Merger Agreement). Additionally, on August 1, 2023, BYTS entered into a Non-Redemption Agreement with the Non-Redeeming Shareholder holding Public Shares, pursuant to which the Non-Redeeming Shareholder agreed not to redeem $1 million in aggregate value of Public Shares held by it on the date of the Non-Redemption Agreement in connection with the Business Combination. The Non-Redeeming Shareholder is an investor in our Sponsor and, other than indirectly through its interest in our Sponsor, the Non-Redeeming Shareholder did not receive any separate consideration for such waiver.

***Amendment to Non-Redemption Agreement***

In connection with the Second Extension, on September 14, 2023, BYTS entered into an amendment to the March 8, 2023 non-redemption agreement with one shareholder holding 1,000,000 Public Shares. In exchange for the shareholder's agreement not to redeem its Public Shares in connection with the Second Extension and to vote in favor of the Second Extension, BYTS agreed to extend its obligation to pay such shareholder $0.033 per share in cash per month through March 25, 2024.

(7) To record the effect of the underwriters agreement to waive the deferred underwriting commissions of $11.3 million, that was to be paid under the terms of the underwriting agreement, in the event of closing of a business combination with Airship AI Holdings, Inc.

(8) To record the repayment of advances from related party at closing for the amount due as of September 30, 2023 and an additional $0.34 million of proceeds received subsequent to September 30, 2023 for total payment at closing for $0.48 million, net impact of cash for the pro forma of $0.14 million.

(9) To record the transfer of 150,000 Sponsor share to the claim holders of BYTE NV. On December 13, 2023, BYTS formed a wholly-owned subsidiary in Nevada, BYTS NV Merger Sub, Inc. ("NV Merger Sub"), for the purpose of acquiring SILLC (E) Acquisition Corp., a Nevada corporation ("SILLC"), an entity subject to a bankruptcy proceeding that has no assets, no equity owners and no liabilities, except for claims of approximately 400 holders of allowed unsecured claims and a holder of allowed administrative expenses (collectively, the "Claim Holders"). On December 15, 2023, BYTS entered into an Agreement and Plan of Merger (the "SILLC Merger Agreement") by and among BYTS, NV Merger Sub, SILLC, and the other parties thereto, pursuant to which, immediately following the consummation of the Domestication and prior to the consummation of the Business Combination, NV Merger Sub merged with and into SILLC (the "SILLC Merger"), with SILLC surviving the SILLC Merger as a wholly-owned subsidiary of BYTS. SILLC became the successor and "Post Confirmation Debtor" pursuant to the bankruptcy plan. As a result of the SILLC Merger, and in accordance with the bankruptcy plan, Airship Pubco issued an aggregate of 150,000 shares of Airship Pubco Common Stock (the "Plan Shares") to the Claim Holders as full settlement and satisfaction of their respective claims, pursuant to Section 1145 of the U.S. Bankruptcy Code. The Sponsor forfeited an equal number of Sponsor Shares.

(10) To record the transfer of 2,600,000 Sponsor shares to make the Share Contribution to secure non-redemption agreements and/or PIPE Financing.

(11) Represents the Earnout Shares liability. These earnout shares have been categorized into two components: (i) the "Vested Shares" - those associated with Earnout Holders with vested equity at the closing of the Merger that will be earned upon achievement of the Earnout Milestones and (ii) the "Unvested Shares" - those associated with Earnout Holders with unvested equity at the closing of the Merger that will be earned over the remaining service period with the Company on their unvested equity shares and upon achievement of the Earnout Milestones. The Vested Shares, which represent 95% of the total Earnout Shares are classified as liabilities in the consolidated balance sheet at fair value with changes in fair value recognized in the consolidated statements of operations due to the variability in the number of Earnout Shares at settlement which could change upon a change of control event. The Earnout arrangement contains a settlement provision that violates the indexation guidance under ASC 815-40. The Unvested Shares are equity-classified share-based compensation to be recognized over time under ASC 718 due to the service component. The value of the earnout was determined using a Monte Carlo Model. The following assumptions were used in the simulation: Five-year term, quoted prices as of September 30, 2023 of $10.67, volatility of 40.3%, discount rate of 4.60%, probability of meeting the federal law enforcement agency growth at 100%.

| | |
|---|---|
| Earnout shares | 5,000,000 |
| Per share fair value | 9.754 |
| Total estimated grant date fair value | $ 48,769,051 |
| 5% allocated to Services | 2,525,415 |
| 95% allocated to Earnout liability | $ 46,243,636 |

**3. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations for the Nine Months Ended September 30, 2023 and the Twelve Months Ended December 31, 2022**

The transaction accounting adjustments included in the unaudited pro forma condensed combined statements of operations are as follows:

(A) Derived from the unaudited condensed statement of operations of Airship AI for the nine months ended September 30, 2023.

(B) Derived from the unaudited condensed statement of operations of BYTS for the nine months ended September 30, 2023.

(C) Derived from the audited consolidated statement of operations of Airship AI for the year ended December 31, 2022.

(D) Derived from the audited statement of operations of BYTS for the year ended December 31, 2022.

(1) Represents an adjustment to eliminate interest income on investments held in the trust account as of the beginning of the period.

(2) Represents an adjustment to recognize the effect of the pro forma balance sheet adjustment presented in Accounting Entry Adjustment #(4) above in the aggregate amount of $4.37 million for the direct, incremental costs of the Business Combination attributed to $0.99 million of legal and profession fees associated to Airship AI and $3.38 million in advisory fees included in accrued expenses, assuming those adjustments were made as of the beginning of the fiscal year presented. As these costs are directly related to the Business Combination, they are not expected to recur in the income of the combined company beyond 12 months after the Business Combination.

(3) Represents the stock-based compensation associated to the Earnout Shares. The Earnout Shares are being issued to employees or service providers of Airship AI, as such consideration was given to whether it should be viewed as a compensation arrangement under ASC 718, Stock compensation. The Earnout Shares have a service requirement and as such the shares were determined to fall under ASC 718. The milestones are anticipated to be achieved as such the value of the earn-out assumed to be recognized evenly over the requisite service period of five years. The value of the earnout was determined using a Monte Carlo Model. The following assumptions were used in the simulation: Five-year term, quoted prices as of September 30, 2023 of $10.67, volatility of 40.3%, discount rate of 4.60%, probability of meeting the federal law enforcement agency growth at 100%. Adjustment represents the annual compensation expense for the year ended December 31, 2022 and the nine-month expense for the nine-month period ended September 30, 2023.

| | |
|---|---|
| Earnout shares | 5,000,000 |
| Per share fair value | 9.754 |
| Total estimated grant date fair value | $ 48,769,051 |
| 95% allocated to Earnout liability | 46,243,636 |
| 5% allocated to Service | $ 2,525,415 |
| | |
| Earnout period | 5 years |
| Annual expense | 505,083 |
| Nine-month expense | 378,812 |

4. Net Loss per Share

Represents the net loss per share calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the Business Combination and related transactions, assuming the shares were outstanding since January 1, 2022. As the Business Combination and related transactions are being reflected as if they had occurred at the beginning of the period presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issued in connection with the Business Combination have been outstanding for the entire period presented.

The unaudited pro forma condensed combined financial information has been prepared reflecting the actual redemptions:

| | Pro Forma Combined Reflecting Actual Redemptions into Cash |
|---|---|
| **Nine Months Ended September 30, 2023** | |
| Net loss | $ (12,727,803) |
| Weighted average shares outstanding – basic and diluted | 22,279,102 |
| Basic and diluted net loss per share | $ (0.57) |
| | |
| **Year Ended December 31, 2022** | |
| Net income | $ 744,416 |
| Weighted average shares outstanding – basic and diluted[(1)] | 22,279,102 |
| Basic and diluted net income per share | $ 0.03 |

| **Weighted average shares calculations, basic and diluted** | Pro Forma Combined Reflecting Actual Redemptions into Cash |
|---|---|
| BYTS Public Shareholders | 106,330 |
| Non-Redemption Agreement Holders | 3,263,076 |
| BYTS NV Shareholders | 150,000 |
| Sponsor | 5,372,312 |
| Existing Airship AI Shareholders | 13,387,384 |
| Weighted average shares outstanding – basic and diluted | 22,279,102 |

(1) As Airship Pubco had a net loss on a pro forma combined basis, the outstanding Airship Pubco options of 4,664,610, Airship SARs of 1,758,105, Airship Warrants of 2,689,901, Airship convertible notes of 367,000 and the 5,000,000 in Earnout Shares as well as the BYTS outstanding Public Warrants of 16,184,626 to Public Shareholders and 515,000 BYTS Warrants held by the Sponsor have no impact to diluted net loss per share as they are considered anti-dilutive.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF AIRSHIP AI

*The following discussion and analysis provides information that Airship AI's management believes is relevant to an assessment and understanding of Airship AI's consolidated results of operations and financial condition. The discussion should be read together with Airship AI's historical audited annual consolidated financial statements as of and for the years ended December 31, 2022 and 2021 and Airship AI's unaudited interim condensed consolidated financial statements as of September 30, 2023 and the nine-month periods ended September 30, 2023 and 2022, and the respective notes thereto, included elsewhere in this prospectus.*

*The discussion and analysis should also be read together with the Company's unaudited pro forma condensed combined financial information for the year ended December 31, 2022 and as of and for the nine months ended September 30, 2023. See "Unaudited Pro Forma Condensed Combined Financial Information." This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Airship AI's actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this prospectus. Unless the context otherwise requires, references in this "Management's Discussion and Analysis of Financial Condition and Results of Operations of Airship AI" to "we", "our" and "the Company" refer to the business and operations of Airship AI Holdings, Inc. (now known as Airship AI, Inc.) and its consolidated subsidiaries prior to the Business Combination and to Airship AI Holdings, Inc. and its consolidated subsidiaries following the consummation of the Business Combination.*

### Company Overview

We are a robust AI-driven data management platform that solves complex data challenges for large institutions operating in dynamic and mission-critical environments with rapidly increasing volumes of data being ingested from a similarly rapidly growing number of data sources.

We solve these challenges by structuring "dark" or unstructured data at the edge and leveraging purpose-built AI models. Combining these capabilities with a tailored approach to customer workflow enables real-time decision making and data-driven operational efficiency.

We specialize in ingesting data from edge-based sensors used by government and law enforcement agencies around the world, including surveillance cameras (video), audio, telemetry, acoustic, seismic, and autonomous devices, along with large commercial corporations with fundamentally similar capabilities and requirements.

Our primary offerings include Outpost AI, Acropolis, and Airship Command. Our offerings allow customers to manage their data across the full data lifecycle, when and where they need it, using a highly secure permissioned based architecture.

We apply AI across the entire offering suite, ensuring that we are extracting as much value from our customers' existing and emerging data as possible. Whether it is using machine learning to train new models for deployment at the edge, or using a rules-based approach to detect anomalies based on data generated by machine learning models, we are constantly expanding and evolving our AI capabilities.

Our offerings are used by some of the largest government agencies and commercial organizations in the world. While we are heavily focused on continuing to grow market share in the United States, our offerings are currently deployed around the world, with significant room to grow in both the governmental and commercial markets.

### Business Combination and Public Company Costs

On December 21, 2023, Airship AI completed the Business Combination contemplated by the Merger Agreement with BYTS and Merger Sub, pursuant to which, among other things, following the Domestication, Merger Sub merged with and into Airship AI, the separate corporate existence of Merger Sub ceased, and Airship AI was the surviving entity as a wholly-owned subsidiary of BYTS and changed its name to "Airship AI, Inc." and BYTS was renamed "Airship AI Holdings, Inc." (collectively, the "Business Combination"). The Business Combination was accounted for as a reverse recapitalization. Airship AI was deemed the accounting predecessor and the combined entity became the successor SEC registrant, meaning that Airship AI's financial statements for previous periods will be disclosed in the registrant's future periodic reports filed with the SEC. Under this method of accounting, BYTS will be treated as the acquired company for financial statement reporting purposes. Total transaction costs were approximately $8.8 million.

As a result of the Business Combination, Airship AI became the successor to an SEC-registered and Nasdaq-listed company, which will require Airship AI to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. Airship AI expects to incur additional annual expenses as a public company for, among other things, directors' and officers' liability insurance, director fees, and additional internal and external accounting, legal, and administrative resources, including increased personnel costs, audit, and other professional service fees.

**Key Factors and Trends Affecting Results of Operations**

We believe the following factors and trends may cause previously reported financial information not to be necessarily indicative of future operating results or future financial conditions:

- *Increase in the sales of lower margin solutions as we expand our operational footprint.* While our current focus remains on expanding our AI driven software application portfolio, opportunities will continue to present themselves to provide those software-based solutions as part of a larger hardware-based turn-key solutions where Airship AI can provide a unique value-add to the customer. While these solutions will positively affect revenue we anticipate our operating profits in future periods may be adversely affected as compared to previous years due to the lower operating margin for hardware versus software applications.

- *Challenges due to geo-political driven supply-chain constraints.* While many of the COVID-19 driven supply chain issues have been resolved, challenges to the timely production and delivery of Taiwan based products we utilize for our edge AI platform due to geo-political factors is a concern looking forward. In the event that our suppliers are unable to provide timely delivery of those supplies it will significantly impact our ability to meet delivery schedules for existing and anticipated edge AI hardware-based solutions.

- *Near-term impacts due to merger and acquisition activity.* If Airship AI merges with or acquires another company following the Business Combination, it is reasonably expected that there will be increased operating expenses and costs associated with the merger that could negatively impact operating profits in the future periods immediately following the M&A event. The extent and longevity of those impacts is not possible to quantify.

**Key Performance Indicators**

Historically, a majority of our product revenue has consisted primarily of a bundled hardware and software product and to date we have sold or licensed a minimal amount of standalone software. In the future, we expect to see more delivery of our products using a cloud based software solution which will allow us to create additional subscription revenue.

We have historically evaluated our business solely based on revenue generated from customers and we have not tracked any other customer-related metrics. As we grow and increase our product offerings and customer base, we intend to modify and develop more advanced performance indicators. We believe the following key performance indicators apply to us in the future:

- Growth within existing government customers. While we currently have a strong footprint across multiple large U.S. government agencies, growing our business within these agencies outside of the investigation focused departments is a fundamental area of our projected growth. Our ability to expand our footprint by implementing AI based solutions that leverage our core existing competencies within the agencies will be a critical indicator of the success of this strategy. We will measure progress against this objective through the disclosure of awards for new business within these agencies during the affected timeframe, providing tangible evidence of the success of our strategy to both management and investors alike.

- Greater penetration into the commercial marketplace. While we have several existing customers in the commercial marketplace, our ability to build on the solutions we provide those customers and expand that base will be critical to our projected growth objectives. We will measure progress against this objective through the disclosure of the number of new commercial customers added during the affected timeframe, providing tangible evidence of the success of our strategy to both management and investors alike.

- Expansion of our edge AI based solutions. We began to sell AI based solutions in late 2022. Our current strategy is highly focused on the transition of data management and analysis workloads to the edge, driving efficiency and cost savings for our customers. This strategy also includes new models being trained to extract data at the edge which enables real-time intelligent decision making for our customers. We will measure progress against this objective through the disclosure of the numbers of edge AI hardware devices we are selling as well as the growth of our edge AI analytic capabilities, providing tangible evidence of the success of our strategy to both management and investors alike.

**Non-GAAP Financial Measures**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). We report certain key financial measures that are not required by, or presented in accordance with GAAP, and these non-GAAP financial measures should not be considered as an alternative to the information prepared in accordance with GAAP. In addition, our management reviews our performance by focusing on several key performance indicators not prepared in conformity with GAAP. We believe these non-GAAP financial measures provide a useful measure of our operating results, a meaningful comparison with historical results and with the results of other companies, and insight into our ongoing operating performance. Further, we utilize these measures, in addition to GAAP measures, when evaluating and comparing our operating performance against internal financial forecasts and budgets.

However, there are several limitations related to the use of non-GAAP financial measures because it excludes significant expenses or credits that are required by GAAP to be included in our financial statements. In addition, other companies may calculate non-GAAP measures differently or may use other measures to calculate their financial performance. Therefore, non-GAAP measures may not be directly comparable to similarly titled measures of other companies.

The Company defines adjusted EBITDA as net earnings (loss) before interest expense, income tax expense (benefit), depreciation and amortization, as adjusted to exclude stock based compensation.

**Non-GAAP Reconciliations**

We use the non-GAAP measures EBITDA and adjusted EBITDA to help us evaluate our business, identify trends affecting our business, formulate business plans and financial projections, and make strategic decisions. Also, we exclude depreciation and stock-based compensation, which are non-cash expenses, from these non-GAAP financial measures because we believe that excluding these items provides meaningful supplemental information regarding operational performance and provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management team.

Our definitions may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Further, these metrics have certain limitations, as they do not include the impact of certain expenses that are reflected in our consolidated statement of operations. Thus, our non-GAAP EBITDA and adjusted EBITDA should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP.

We compensate for these limitations by providing reconciliations of these non-GAAP measures to the most comparable GAAP measures. We encourage investors and others to review our business, results of operations, and financial information in its entirety, not to rely on any single financial measure, and to view these non-GAAP measures in conjunction with the most directly comparable GAAP financial measures.

The reconciliation of our net loss to EBITDA and Adjusted EBITDA for the years ended December 31, 2022 and 2021 is as follows:

| | Year Ended December 31, | |
|---|---|---|
| **($ Millions)** | **2022** | **2021** |
| Net loss | $ (0.5) | $ (5.1) |
| + Interest expense | 0.0 | 0.0 |
| + Depreciation and amortization | 0.01 | 0.05 |
| **EBITDA** | $ (5.0) | $ (0.4) |
| Stock-based compensation | 0.5 | 0.8 |
| **Adjusted EBITDA** | $ (4.2) | $ 0.1 |

**Results of Operations**

The period to period comparisons of our results of operations have been prepared using the historical periods included in our consolidated financial statements. The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. We have derived this data from our interim and annual consolidated financial statements included elsewhere in this prospectus.

**Results of Operations**

The period to period comparisons of our results of operations have been prepared using the historical periods included in our consolidated financial statements. The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. We have derived this data from our interim and annual consolidated financial statements included elsewhere in this prospectus.

***Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022***

(dollars in thousands)

| | (unaudited) Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | **2023** | **2022** | **$ Variance** | **% Variance** |
| Net revenue | $ 8,093 | $ 12,962 | $ (4,869) | (37.6)% |
| Cost of net revenue | 4,013 | 5,134 | 1,121 | 21.8% |
| Gross profit | 4,080 | 7,828 | (3,748) | (47.9)% |
| Research and development expenses | 2,028 | 2,732 | 704 | 25.8% |
| Selling, general and administrative expenses | 8,068 | 6,107 | (1,961) | (32.1)% |
| Total operating expenses | 10,096 | 8,839 | (1,257) | (14.2)% |
| Operating loss | (6,016) | (1,011) | (5,005) | (495.1)% |
| Other income (expense): | | | | |
| Interest income | — | 13 | (13) | (100.0)% |
| Interest expense | (58) | (4) | (54) | (1350.0)% |
| Other income (expense) | (408) | 1,146 | (1,554) | (135.6)% |
| Total other (expense) income, net | (466) | 1,155 | (1,621) | (140.3)% |
| (Loss) income before income taxes | (6,482) | 144 | (6,626) | (4601.4)% |
| Income tax benefit (expense) | — | — | — | 0.0% |
| Net (loss) income | $ (6,482) | $ 144 | $ (6,626) | (4601.4)% |

*Net Revenue* — Revenue for the nine months ended September 30, 2023 decreased $4,869,000 to $8,093,000 as compared to $12,962,000 for the nine months ended September 30, 2022, as a result of lower product sales. As a result of supply chain issues that existed at December 31, 2021, we were unable to fulfill many orders and had a backlog of new orders of $6.8 million that shipped during the nine months ended September 30, 2022.

*Cost of Net Revenue* — Cost of net revenue primarily consists of product costs and post customer support. For the nine months ended September 30, 2023, cost of sales decreased $1,121,000 to $4,013,000 as compared to $5,134,000 for the nine months ended September 30, 2022. The decrease was due to lower product sales. The cost of our products during the nine months ended September 30, 2022 were much higher as a percentage of product sales than the nine months ended September 30, 2023 as a result of higher costs from the supply chain issues that existed early on in the COVID-19 pandemic.

*Research and Development Expenses* — Research and development expenses for the nine months ended September 30, 2023 decreased $704,000 to $2,028,000 as compared to $2,732,000 for the nine months ended September 30, 2022. The decrease was due to reduced personnel (18 personnel as compared to 20 personnel) and reduced funding of $550,000 of the AI expenses in Taiwan.

*Selling, General and Administrative Expenses* — Selling, general and administrative expenses for the nine months ended September 30, 2023 increased $1,961,000 to $8,068,000 as compared to $6,107,000 for the nine months ended September 30, 2022. The increase was due to (i) increased stock based compensation of $2,616,000; and partially offset by (ii) decreased payroll of $293,000 (reduced personnel over the nine months); and (iii) reduced other expenses of $362,000. The stock based compensation increase includes approximately $2.1 million for warrants to purchase 765,000 shares of common stock issued to each of Victor Huang and Derek Xu.

*Other Income* — Other expense for the nine months ended September 30, 2023 was $408,000 as compared to other income of $1,155,000 for the nine months ended September 30, 2022. The expense for the nine months ended September 30, 2023 related to the increase in fair value of the convertible promissory note. On January 25, 2021, the Company received $1,146,235 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). In May 2022, the entire unpaid balance was forgiven and approximately $1,146,000 was recognized as other income.

*Net Loss* — Net loss for the nine months ended September 30, 2023 was $6,482,000 as compared to net income of $144,000 for the nine months ended September 30, 2022. The change was the result of $3.1 million lower gross profit in 2023 from decreased revenue, higher operating expenses in 2023 of $1.2 million due mostly to increased stock based compensation and $1.6 million change in other income resulting from the approximately $400,000 expense in 2023 for the fair value adjustment of convertible promissory note and the $1.1 million gain on the PPP loan in 2022. The net loss for the nine months ended September 30, 2023 included noncash expenses of $3,462,000. Net income for the nine months ended September 30, 2022 included net noncash income of $269,000.

***Year Ended December 31, 2022 Compared to Year Ended December 31, 2021***

(dollars in thousands)

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | **2022** | **2021** | **$ Variance** | **% Variance** |
| Net revenue | $ 14,549 | $ 13,039 | $ 1,510 | 11.6% |
| Cost of net revenue | 6,128 | 6,052 | (76) | (1.3)% |
| Gross profit | 8,421 | 6,987 | 1,434 | 20.5% |
| Research and development expenses | 3,615 | 4,215 | 600 | 14.2% |
| Selling, general and administrative expenses | 7,630 | 8,895 | 1,265 | 14.2% |
| Total operating expenses | 11,245 | 13,110 | 1,865 | 14.2% |
| Operating loss (income) | (2,824) | (6,123) | 3,299 | 53.9% |
| Other income (expense): | | | | |
| Interest income | 43 | 24 | 19 | 79.2% |
| Interest expense | (75) | (21) | (54) | (257.1)% |
| Other income – PPP loan forgiveness | 1,146 | 996 | 150 | 15.1% |
| Other income – Employee retention tax credit | 1,233 | — | 1,233 | 100.0% |
| Total other income, net | 2,347 | 999 | 1,348 | 134.9% |
| (Loss) income before income taxes | (477) | (5,124) | 4,647 | 90.7% |
| Income tax benefit (expense) | (10) | — | (10) | 0.0% |
| Net (loss) income | $ (487) | $ (5,124) | $ 4,637 | 90.5% |

*Net Revenue* — Revenue for the year ended December 31, 2022 increased $1,510,000 to $14,549,000 as compared to $13,039,000 for the year ended December 31, 2021, as a result of supply chain issues as of December 31, 2021. As of December 31, 2021, we had a backlog of new orders of $6.8 million that shipped during the year ended December 31, 2022.

*Cost of Net Revenue* — Cost of net revenue consists of product support and raw material component expenses. Cost of sales for the year ended December 31, 2022 increased $76,000 to $6,128,000 as compared to $6,052,000 for the year ended December 31, 2021. The increase is related to increased sales.

*Research and Development Expenses* — Research and development expenses for the year ended December 31, 2022 decreased $600,000 to $3,615,000 as compared to $4,215,000 for the year ended December 31, 2021. The decrease was due to (i) reduced payroll expenses of $122,000 (20 personnel as compared to 24 personnel) in the United States; and (ii) reduced consulting expenses of $815,000; offset by (iii) increased funding of the AI project expenses in Taiwan of $377,000.

*Selling, General and Administrative Expense* — Selling, general and administrative expenses for the year ended December 31, 2022 decreased $1,265,000 to $7,630,000 as compared to $8,895,000 for the year ended December 31, 2021. The decrease primarily was due to (i) reduced payroll of $971,000 (28 personnel as compared to 38 personnel); (ii) reduced stock based compensation of $353,000; and offset by other increases of $59,000.

*Other Income* — Other income for the year ended December 31, 2022 was $2,347,000. On January 25, 2021, the Company received $1,131,878 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). The note payable bears interest at 1% and was due January 23, 2026. The Company accrued interest of $9,845 as of December 31, 2021. The Company had used the funds in accordance with the legal requirements. In May 2022, the entire unpaid balance was forgiven and approximately $1,146,000 was recognized as other income.

On April 29, 2020, the Company received $984,485 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). The note payable included interest of $11,349 and was due April 17, 2022. The loan and interest were forgiven on June 14, 2021. The loan and interest forgiveness totaling approximately $996,000 were recognized as other income during the year ended December 31, 2021.

The CARES Act allowed eligible employers to claim employee retention tax credits ("ERTC") for qualified wages paid after March 12, 2020 and before January 1, 2021. The ERTC was extended to June 30, 2021 under the passage of the Taxpayer Certainty and Disaster Relief Act of 2020 ("ACT") which was signed into law on December 27, 2020. We qualified for credits under the provisions of the CARES Act for the entire period subsequent to March 12, 2020 through January 1, 2021 and for the entire period subsequent to January 1, 2021 through June 30, 2021.

On September 8, 2021, the Company applied for ERTC credits for qualifying 2020 wages. The Company filed amended payroll tax returns to claim the credit it believed it was entitled to, $99,132 and $190,983, respectively. On April 4, 2022, the Company received $99,826 and $192,793, including interest.

The Company accounted for this in the year it believed collectability was assured. Considering the length of time after year-end and the lack of certainty over the government's handling of ERTC claims, the Company deemed it appropriate and conservative to not record this transaction in the year ended December 31, 2021 but rather in 2022 when the cash received.

On May 25, 2022, the Company applied for ERTC credits for qualifying 2021 wages. The Company filed amended payroll tax returns to claim the credit it believed it was entitled to, $461,043 and $459,614, respectively. The Company received two refunds in January 2023 for $468,880 and $470,970, including interest. The Company recorded the amounts in payroll tax receivable as of December 31, 2022.

*Net Loss* — Net loss for the year ended December 31, 2022 was $487,000 as compared to net loss of $5,124,000 for the year ended December 31, 2021. The net loss for the year ended December 31, 2022 is discussed above.

**Liquidity and Capital Resources as of September 30, 2023 and 2022**

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures. We formally evaluated our liquidity and cash position most recently in November 2023 when preparing our September 30, 2023 interim financial statements. During this process we concluded, based upon existing assets and liabilities, our order backlog and projections, plus the ability to borrow up to $2.5 million in short term loans from our founder, that we would be able to operate at least for the next twelve months. Subsequent to the completion of our September 30, 2023 interim financial statements, we entered into a short term loan agreement providing $600,000 in cash. We have also recently received purchase orders from various government agency customers totaling over $13 million from which we expect to start receiving cash in the first quarter of 2024.

As of September 30, 2023, we had cash of approximately $482,000 and a net working capital deficit of approximately $7,820,000 and a working capital deficit of approximately $3,760,000 excluding current portion of deferred revenue of $4,059,000 as of September 30, 2023. As of September 30, 2023, we had an accumulated deficit of $16,796,000 and a net loss of $6,482,000 for the nine months ended September 30, 2023. We had noncash expenses of $3,462,000 during the nine months ended September 30, 2023. On May 8, 2023, we issued warrants to purchase 765,000 shares of common stock to each of Victor Huang and Derek Xu. The warrants were valued at $2,136,115 and were recorded as stock based compensation.

*Operating Activities*

Net cash used in operating activities for the nine months ended September 30, 2023 was $2,524,000. This amount was primarily related to (i) a net loss of $6,482,000; offset by (ii) depreciation of $11,000; (iii) stock based compensation of $2,616,000; (iv) net amortization of operating lease right of use asset of $513,000; (v) unrealized loss for increase in fair value of convertible promissory note of $401,000; and (vi) working capital changes of $496,000. On May 8, 2023, we issued warrants to purchase 765,000 shares of common stock to each of Victor Huang and Derek Xu. The warrants were valued at $2,136,115 and were recorded as stock based compensation.

Net cash used in operating activities for the nine months ended September 30, 2022 was $685,000. This amount was primarily related to (i) a net income of $144,000; (ii) depreciation of $11,000; (iii) stock based compensation of $448,000; (iv) amortization of operating lease right of use asset of $426,000; (v) working capital changes of $559,000; and offset by (vi) gain on PPP loan forgiveness of $1,142,000; and (vii) other expense of $13,000.

*Financing Activities*

Net cash provided by financing activities for the nine months ended September 30, 2023 was $2,710,000 and consisted of (i) issuance of a senior secured convertible promissory note of $1,985,000; net advances provided by the founders of $1,150,000; and (ii) the payoff of small business loan and line of credit of $425,000.

Net cash provided by financing activities for the nine months ended September 30, 2022 was $465,000 and consisted of net advances provided by the founders of $500,000; offset by repayment of small business loan and line of credit of $35,000.

Our contractual cash obligations as of September 30, 2023 are summarized in the table below:

| Contractual Cash Obligations | Total | Less Than 1 Year |
|---|---|---|
| Operating lease cash payments | $ 26,844 | $ 26,844 |

On May 1, 2019, we leased 31,765 square feet for our executive offices in Redmond, Washington. Our net monthly payment was $44,440. The monthly payment increased approximately 3% each year and the lease was set to expire on April 30, 2024. We had two five-year renewal options. In April 2023, we and the landlord entered into an agreement whereby our office lease was terminated on September 30, 2023.

We entered into a new lease in Redmond, Washington for 15,567 square feet of office and warehouse space which started October 1, 2023. The monthly payment is $25,000 per month. The lease expires October 31, 2027 and the monthly payment increases 3% on July 31, 2024 and each year thereafter. There is a three year option to extend based on the fair market rate on October 31, 2027.

**Debt Financing Arrangements**

On June 22, 2023, we entered into a Senior Secured Convertible Promissory Note with Platinum Capital Partners Inc. and received $2,000,000. As a condition of funding, we paid off three small notes and accounts payable totaling $374,000. In the event the BYTS merger has not closed by December 22, 2023, then on not less than thirty days written notice to the Company by the holder thereafter, the holder may put this note to the Company and the Company will pay the holder 110% of the unpaid principal amount of the note together with any unpaid accrued interest and any other amount payable.

On November 2, 2023, we issued senior secured convertible promissory notes for $600,000 to two private investors. At the option of the holders, the notes are convertible into cash, common stock or a combination of cash and stock.

Mr. Huang has committed to providing $2.5 million in additional temporary funding if it is necessary.

We believe that our cash on hand, funding from the completion of the business combination, results of operations and financing transactions will be sufficient to fund our operations for the next twelve months.

Equity financing, if obtained, could result in dilution to our then-existing stockholders and/or require such stockholders to waive certain rights and preferences. If such financing is not available on satisfactory terms, or is not available at all, we may be required to delay, scale back, or eliminate the development of business opportunities and our operations and financial condition may be materially adversely affected.

**Liquidity and Capital Resources as of December 31, 2022 and 2021**

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

As of December 31, 2022, we had cash of approximately $299,000 and net working capital deficit of approximately $4,039,000 and a working capital of approximately $129,000 excluding current portion of deferred revenue of $4,168,000 as of December 31, 2022. As of December 31, 2022, we had an accumulated deficit of $10,314,000 and a net loss of $487,000 for the year ended December 31, 2022. During the year ended December 31, 2022, we received (i) the founders advances of $1,900,000 and we repaid advances to the founders of $1,300,000; (ii) we received $940,000 from the CARES Act which allowed eligible employers to claim employee retention tax credits ("ERTC") for qualified wages paid after March 12, 2020 and before January 1, 2021; (iii) we received $565,000 from a small business loan and a line of credit; and (iv) proceeds from notes receivable — related parties of $842,000.

*Operating Activities*

Net cash used in operating activities for the year ended December 31, 2022 was $2,903,000. This amount was primarily related to (i) a net loss of $487,000; (ii) working capital changes of $2,365,000; (iii) gain on forgiveness of note payable — PPP of $1,146,000; offset by (iv) depreciation of $15,000; (v) stock based compensation of $546,000; (vi) amortization of operating lease right of use asset of $517,000; and (vii) other of $17,000.

Net cash used in operating activities for the year ended December 31, 2021 was $5,133,000. This amount was primarily related to (i) a net loss of $5,124,000; offset by (ii) depreciation of $53,000; (iii) stock based compensation of $899,000; (iv) other of $37,000; and (v) offset by gain on forgiveness of note payable — PPP of $996,000.

*Financing Activities*

Net cash provided by financing activities for the year ended December 31, 2022 was $1,866,000 and consisted of (i) $565,000 from a small business loan and a line of credit; (ii) proceeds from notes receivable — related parties of $842,000; (iii) the founders advances of $1,900,000 and repayment of advances to the founders of $1,300,000; and (iv) repayment of small business loan and line of credit of $140,000.

Net cash provided by financing activities for the year ended December 31, 2021 was $3,637,000 and consisted of (i) the founders repaid advances of $2,490,000; (ii) we received $1,132,000 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020); and (iii) other of $15,000.

Our contractual cash obligations as of December 31, 2022 are summarized in the table below:

| Contractual Cash Obligations | Total | Less Than 1 Year | 1 – 3 Years |
|---|---|---|---|
| Operating lease cash payments | $ 868,435 | $ 657,502 | $ 210,933 |

**Contractual Obligations and Commitments**

On May 1, 2019, we leased 31,765 square feet for our executive offices in Redmond, Washington. Our net monthly payment was $44,440. The monthly payment increases approximately 3% each year and the lease expires on April 30, 2024. We had two five-year renewal options. In April 2023, we entered into an agreement whereby our office lease would be terminated on September 30, 2023. On July 13, 2023, we entered into a new lease in Redmond, Washington for office and warehouse space.

On January 1, 2021, we leased offices located in Moorestown, North Carolina. We leased 3,621 square feet and the net monthly payment is $4,828. The monthly payment increases approximately 3% – 6% annually thereafter. The lease expires on February 28, 2024 and can be extended for one three-year term.

**Recent Developments**

In April 2023, we entered into an agreement whereby our office lease in Redmond, Washington will be terminated on September 30, 2023. On July 13, 2023, we entered into a new lease in Redmond, Washington for office and warehouse space at an annual savings of approximately $350,000 per year.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results could differ materially from those estimates due to risks and uncertainties, including uncertainty in the current economic environment. To the extent that there are material differences between these estimates and our actual results, our future consolidated financial statements will be affected.

We believe that the significant accounting policies described in "*Note 2, Summary of Significant Accounting Policies*" to our audited consolidated financial statements are accurate and complete. The critical accounting estimates, assumptions, and judgments that have the most significant impact on our consolidated financial statements are described below.

**Revenue Recognition**

The majority of our contracts with our customers include various combinations of our products and post contract support ("PCS") services. Our products and PCS offerings have significant standalone functionalities and capabilities. Accordingly, the products are distinct from our PCS services as customers can benefit from the products without the PCS services and such PCS services are separately identifiable within the contracts. We account for multiple agreements with a single customer as a single contract if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract. The amount of consideration we expect to receive in exchange for delivering on the contract is allocated to each performance obligation based on its relative standalone selling price.

We establish the standalone selling price using the prices charged for a deliverable when sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price based on our pricing model and offering type (products or PCS services). As our business offerings evolve over time, we may be required to modify our estimated standalone selling prices, and as a result the timing and classification of our revenue could be affected.

**Income Taxes**

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. In addition, deferred tax assets are recorded for all future benefits including, but not limited to, net operating losses, research and development credit carryforwards, and basis differences with certain assets and liabilities.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision or benefit for income taxes in the period in which such determination is made.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more likely than not to be realized upon ultimate settlement. We do not believe that we currently have any material uncertain tax positions and no reserves are currently required given our deferred tax asset has a 100% valuation allowance.

**Stock Based Compensation**

The Company records stock-based compensation expense associated with stock options, warrants, SARs and other equity-based compensation using the Black-Scholes-Merton option valuation model for estimating fair value of such equity instruments. The fair value of such equity instruments is determined at the date of grant and such value is recognized as an expense over the service period of the recipient. The Black Scholes pricing model uses various inputs and assumptions, including the estimated fair value of the common stock, stock volatility, risk free interest rate over the expected term of the instrument, estimated life of the award, and forfeiture rates of such awards. All of these estimates impact stock based compensation which is a non cash expense. Changes in the assumptions used in the calculation would impact the recorded stock based compensation. The fair value of the equity instrument is usually calculated at issuance and not required to be remeasured in the future. Management uses third party experts to assist with certain elements of the fair value calculation and it constantly adjusts the variables used in estimating the fair value of equity instruments issued as compensation.

**Recent Accounting Pronouncements**

For further information on recent accounting pronouncements, see "*Note 2, Summary of Significant Accounting Policies*" to our audited consolidated financial statements included herein.

**Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks in the ordinary course of our business, which primarily relate to fluctuations in the value of our investments, interest rates, foreign exchange, and inflation.

***Market Risk***

As of September 30, 2023, we had no outstanding investments in marketable securities.

***Interest Rate Risk***

Our cash, cash equivalents, and restricted cash consist of cash, certificates of deposit, and money market funds. Our primary investment policy and strategies are focused on the preservation of capital and supporting our liquidity requirements; however, to a lesser extent we have made and may continue to make investments in early- and growth-stage companies as disclosed in *Note 4. Investments and Fair Value Measurements* in our consolidated financial statements included elsewhere in our financial statements. We do not currently anticipate entering into new Investment Agreements to purchase, or commit to purchase, securities of special purpose acquisition companies. Due to the short-term nature of the financial instruments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates.

***Foreign Currency Exchange Risk***

Our contracts with customers are denominated in U.S. dollars. Our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations, which are primarily in the United States, and Taiwan. Our results of current and future operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the U.S. dollar and the New Taiwan dollar. We have experienced, and may continue to experience, fluctuations in net loss as a result of transaction gains or losses related to remeasuring certain assets and liability balances that are denominated in foreign currencies. These exposures may change over time as business practices evolve and economic conditions change. To date, foreign currency transaction gains and losses have not been material to our consolidated financial statements, and we have not engaged in any foreign currency hedging transactions.

***Inflation Risk***

We do not believe that inflation has had a material effect on our business, results of operations, or financial condition. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, or results of operations.

## DESCRIPTION OF AIRSHIP AI'S BUSINESS

*Unless the context otherwise requires, all references in this section to the "Company," "we," "us," or "our" refer to the business and operations of Airship AI and its subsidiaries prior to the consummation of the Business Combination and to Airship Pubco and its consolidated subsidiaries following the consummation of the Business Combination.*

### Overview

We are a robust AI-driven data management platform that solves complex data challenges for large institutions operating in dynamic and mission-critical environments with rapidly increasing volumes of data being ingested from a similarly rapidly growing number of data sources.

We solve these challenges by structuring "dark" or unstructured data at the edge, the location at which the data is generated and collected, and leveraging purpose-built AI models. Unstructured, or "dark" data, which is typically categorized as qualitative data, cannot be processed and analyzed via conventional data tools and methods. Conversely, structured data, typically categorized as quantitative data, is highly organized and easily decipherable by machine learning algorithms.

Structuring and then analyzing data using AI models at the edge, versus transmitting the data from the edge back to a central processing location for structuring and analysis, enables real-time decision making and data-driven operational efficiency.

We specialize in ingesting all available metadata from edge-based sensors used by government and law enforcement agencies around the world, including surveillance cameras (video), audio, telemetry, acoustic, seismic, and autonomous devices, along with large commercial corporations with fundamentally similar capabilities and requirements.

Data generated by these edge-based sensors, including video, can then be run through our trained AI models to detect objects present within the video frame. Once an object is detected, for example an automobile, additional identifying characteristics of the object can be extracted from the image including the license plate characters and the make, model, and color of the automobile. This process of analyzing, logging and categorizing ingested data is referred to as "structuring" the data.

Airship AI's software allows customers to view structured data both in real-time as well as to conduct searches on the structured data at a later point in time. Real-time structured data use includes, for example, alarms on a specific license plate or a specific make, model or color of automobile. Non-real-time structured data use includes, for example, searching a database of video data that has been previously ingested and stored to find instances of a particular license plate being visible, along with other logged vehicle characteristics such as make, model and color of an automobile.

Additional edge deployed AI models enable similar object detection and recognition of common and custom trained objects, such as an aircraft, boat, person, animal, bag, or weapon. Airship AI's models provide similar data points for these object types allowing analysts the ability to be notified in real-time of the detection of a specified object and similarly search for historically detected objects. Examples include detecting aircrafts and boats along with their respective tail numbers and hull registration numbers.

Our AI modelling process starts with pre-trained AI models from our technology ecosystem partners which we then customize using proprietary datasets tailored towards our customers unique workflow requirements. Where customers have pre-existing AI models or engines, we integrate those models or engines into our edge platform allowing customers to leverage proprietary models within the Airship AI software ecosystem.

Our primary offerings include Outpost AI, Acropolis, and Airship Command. Our offerings allow customers to manage their data across the full data lifecycle, when and where they need it, using a highly secure permissioned based architecture.

Outpost AI is our edge hardware and software offering that is purpose built to structure and analyze data efficiently and effectively at the source using Airship AI trained models. Once structured, Outpost AI securely encodes the data and streams it to Acropolis for further processing. In the automobile example, Outpost AI will process the unstructured and unlabeled video data into structured data including images of vehicles, images of plates, make, model, color, locations and plate numbers, as well as confidence levels on the structured results.

Acropolis is our enterprise management software suite which serves as the backbone of our software ecosystem. Acropolis allows customers with a handful of devices or hundreds of thousands of devices to manage their user and install base efficiently and securely from a single graphical user interface. Acropolis can be installed and managed locally (on-premises) as well as in cloud/multi-cloud-based system architectures. Acropolis can work with structured and unstructured data. In the scenario where Outpost AI processes the unstructured video of vehicles into images, plate numbers and other structured data, Acropolis will compare the structured data against customer repositories of structured data in order to add labels to results for user attention. Here, Acropolis leaves the initial processing of unstructured data to the edge device (Outpost AI) and handles additional labeling which requires bigger centralized datasets. Where Acropolis is receiving unstructured data as input from devices, it will do the initial processing of unstructured to structured data similar to what Outpost AI does at the edge before any additional labelling. This holistic approach allows customers to leverage the benefits of both edge and back-end data structuring and analysis in a "single-pane-of-glass" approach.

Airship Command then allows the customer to view the final labelled data which can be presented in real-time or as search results, as alerts, in automatically updating lists or on maps. In the vehicle example, Airship Command can present alarms on specific filters such as specific plates, intelligent partial matches, make, model, color and any combination thereof, as well as searches using the same filters against character recognition and vehicle characteristics results.

Airship Command is our suite of visualization tools that allow customers to interact with their data and devices securely and efficiently. Customer data interaction may include receiving and viewing an alarm triggered by an AI detected event at the edge on a mobile phone, or receiving and viewing events from thousands of edge devices spread across multiple different locations on a large video wall in a Security Operations Center ("SOC"). Our visualization tools span applications for workstations, web-based browsers, and applications for mobile handheld devices ensuring our customers data is never out of their immediate reach.

We apply AI across the entire offering suite, ensuring that we are extracting as much value from our customers' existing and emerging data as possible. Whether it is using machine learning to train new models for deployment at the edge, or using a rules-based approach to detect anomalies based on data generated by machine learning models, we are constantly expanding and evolving our AI capabilities.

Our offerings are used by some of the largest government agencies and commercial organizations in the world. While we are heavily focused on continuing to grow market share in the United States, our offerings are currently deployed around the world, with significant room to grow in both the governmental and commercial markets.

Our typical customer engagement is a multi-year contractual agreement, an agreement which includes our core offerings as well as professional services, technical support, and software maintenance, which we expect will result in predictable, long-term recurring revenue. Our history shows that organizations that have chosen to partner with Airship AI stick with Airship AI.

Since our inception, we have operated as a 100% employee-owned bootstrapped company with no outside investment, operating in a fiscally conservative model. As a U.S. based company, we operate in high growth areas, namely the intersection of public safety and AI, with a combined $7 billion edge AI hardware and software addressable market.

In 2022, we generated $14.5 million of revenue with 58% gross margin with positive EBITDA. We entered 2023 with $5.5 million of bookings and billings and $162.9 million in our pipeline, consisting predominantly of large U.S. government contracts, with further room to grow, especially in the commercial sector.

Our customers trust us to collect and analyze vast amounts of data in real-time as well as make it available to their users when they need it, where they need it, as securely as possible. We believe our offerings are purpose built from the ground up to help ensure we continue to meet or exceed these expectations.

**Our Industry**

We believe a robust digital transformation strategy is imperative today for companies to discover new revenue opportunities, gain competitive advantages, and create efficient business operations. Whether companies are established brick and mortar operations with large disparate operational footprints and user bases or newer entrants to the marketplace with centralized operations, the need to ingest and process data efficiently and effectively is critical.

Nowhere across the digital data lifecycle is transformation occurring at a greater rate and pace than at the edge. While the advantages of operating at the edge are clearly recognized, it is only recently that physical technology has caught up with the virtual capabilities software has to offer. These advancements include the shrinking size of processors capable of performing advanced analytics at the edge and networking advancements such as 5G that can efficiently move the data processed at the edge (in real-time).

With these advancements, the ability to move data processing workloads to the edge and achieve true digital transformation has started to become reality. To achieve the full value of this transformation, we must be able to do the following key technical attributes at the edge:

- Structure data and analyze it in real-time,
- Extract value from the analyzed data in real-time,
- Securely transmit the usable data to the consumers who need it in real-time, and
- Securely retain all data at the edge for regulatory/evidentiary purposes.

Achieving these end-states at the edge should allow companies to substantially reduce the time needed to make decisions that affect operations across their environment, in some cases in a predictive manner. This ability to make real-time decisions using data analyzed at the edge can transform operations across industry and government by improving public safety, tailoring predictive maintenance, improving quality control, mitigating organized retail crime, and providing more efficient operations, which drive better customer experiences and operational outcomes.

In addition to the benefits achieved by increasing the speed and efficiency at which decisions can be made by offloading workflow and AI capabilities to the edge, significant cost benefits such as reduced operational costs associated with moving data across networks, processing and analyzing data using traditional massive backend servers and processors, and storage costs for extraneous data that is not valuable. Data security is also greatly enhanced, as are regulatory and compliance requirements for data, when compared to legacy data center approaches to data management.

Similarly, transformative changes are happening between edge and the cloud, leveraging applications that allow you to interact with your data wherever it resides, at the edge, on-premises, and/or in the cloud. True digital transformation can then be fully achieved when you have the “single pane of glass” interface that brings all your data together, securely, and efficiently, structured and analyzed, when and where the data consumer needs it.

**Our Solution**

Airship AI’s platform today is used across multiple verticals and markets, including commercial and government, and small and enterprise. Our products are purpose-built to be scalable and flexible, operating in the environments our customers are in today as well as where they want to be tomorrow. Our software can be installed in air-gapped stand-alone environments as well as enterprise-wide federated environments with countless devices, users, and end-points where data is aggregated and consumed. Our software is installed on bare-metal servers on-premises, in data centers, and in the cloud, as well as in physical and virtualized environments.

Our software is also designed to replace existing capabilities as well as augment and/or enhance existing capabilities, from sensors to IT infrastructure to analytics. In many cases, our customers are able to achieve greater functionality out of existing capabilities through our unique approach to sensor integration and fusion than they could through the OEM manufacturers offerings, further improving ROI on existing infrastructure and cost-savings on planned future technology.

Our primary product offering is our software operating system, Airship Acropolis, supported by our edge (Airship Outpost AI) and end point visualization (Airship Command) offerings. Within Airship Acropolis, we have two variations, our commercial offering (Acropolis Commercial) and our government offering (Acropolis Law). While both variations are derived from the same code base, each is tailored towards specific workflow and operational requirements for their respective customer environments.

- *Acropolis Commercial.* We built this platform first, supporting a variety of small and medium businesses across various commercial verticals, including schools, hospitals, casinos, logistics, and retail establishments. Our growth led us to larger commercial entities where we branched out from a standalone platform managing small numbers of cameras to an enterprise platform capable of managing hundreds of thousands of cameras and users from a single graphical user interface. Acropolis Commercial continues to support our commercial customers’ requirements today.
- *Acropolis Law.* We built this platform based on the success of our commercial offering and we have grown our customer base to include agencies across the law enforcement, defense, and intelligence sectors, with dozens of custom sensor integrations and unique workflows allowing agencies to break down data sharing silos when operating standalone or in joint interagency environments.

Our edge platform, Airship Outpost AI, can be used in a standalone environment as well as pointed back to Airship Acropolis. Outpost AI primarily ingests either single or multiple feeds and using edge inference AI analyzes each feed for specific defined data parameters to alert on. All data is then encoded and streamed back to Acropolis securely for downstream visualization as well as further processing and/or analysis.

Our end point visualization platforms, Airship Command, consists of a thick client application, a web-based thin client, and our iOS and Android applications. Each of these visualization applications provides users the opportunity to securely view and interact with data being managed by Acropolis and control sensors/devices at the edge. Airship Command is the “single pane of glass” solution customers need.

Our professional services include custom model training for customers using their proprietary and sensitive data, on-site and/or remote engineering services supporting customer deployments and operations, as well as custom integrations and workflow enhancements aimed at creating additional operational efficiencies in their environments.

Our support and software maintenance agreements ("SMA") create recurring revenue opportunities for the life of the contract and include options for general support as well as dedicated support through cleared individuals (up to the Top Secret clearance level). Our SMA provides customers access to new releases, patches, and other software updates as they are made public.

**Our Customer Base**

Our market-entry strategy has been to build enduring partnerships with large early adopters, or lighthouse customers, primarily in the United States. We believe these lighthouse customers serve as validation of our capabilities to other potential customers in similar and adjacent verticals by demonstrating the value and operational efficiencies our platform provides. From our first lighthouse customer in the commercial space, we have successfully expanded our footprint to include additional enterprise customers in the commercial market, as well as numerous federal, military, and intelligence agencies across the U.S. government.

After our initial contract is established, our customers tend to expand their use of our products and services, as they realize the efficiency and value provided. We also tend to see rapid expansion into adjacent buying entities within the customer, allowing them to break down data silos between functional areas that have historically existed, through the sharing of data securely and efficiently across network and operational domains.

We believe there are substantial opportunities to leverage work done for our existing lighthouse customers in the commercial and government sectors, where we continue to see growing parallels around operational needs and the technology capabilities we provide that can solve them.

**Revenue Mix**

Historically, a majority of our product revenue has consisted primarily of a bundled hardware and software product and to date we have sold or licensed a minimal amount of standalone software. In the future, we expect to see more delivery of our products using a cloud based software solution which will allow us to create additional subscription revenue.

We expect to capitalize on the significant investments made over the last several years by refining our enterprise software platform for federated users in our defined customer verticals and completing the development of our AI driven edge hardware platform running our proprietary edge software and analytic platform.

These investments have positioned us to not only significantly grow market share at higher margins in these existing verticals but to also find and/or create opportunities in greenfield spaces where the benefits of AI are just starting to emerge.

**Competitive Strengths**

We believe that our approach to providing a holistic data management solution that leverages AI is the key to our future success, as much as the foresight to build a scalable and federated data management backend was when we first started our company. Our software and capabilities are more than just tools in a customer's toolbox, they are integral parts of their day-to-day operational workflow and equally ingrained into their operational processes.

- Single Pane of Glass Platform: Our platform brings together disparate edge generated data into one place, structured and unstructured, allowing our customers the ability to visualize multiple analyzed data forms in a true "single pane of glass." This approach substantially reduces the infrastructure, human and physical, that has been historically needed to view and extract operational value from the customers' data.

- Superior Customer Experience: Our direct approach to customer engagements enables our team to manage the entire customer experience, starting with the first platform demonstration and continuing through installation and long-term employment. This is key to our goal to build partnerships with our customers, which we equate to potential long-term recurring revenue engagements with strong opportunities for expansion within the organization.

- Ease of Use and Adoption: Our solution is architected such that it can be installed in as little as one hour with minimal direct engagement or support needed, yet ready to support operational engagements of a handful of users and devices to thousands of users and tens of thousands of attached devices. Everything within the architecture is purpose built to be intuitive and straightforward, allowing users to become operationally proficient in short order with limited training.

- Hardened and Secure Platform: As a U.S. owned and operated company, our offerings are compliant with the National Defense Authorization Act ("NDAA"), the Commercial Software and the Trade Agreements Act ("TAA"), and the Buy American Act. Thus, cybersecurity and safeguarding data at rest and in transit is factored into everything we do, resulting in our platform having been accredited with numerous Authorities to Operate ("ATO") for U.S. government agencies for on-premise deployments as well at the Fed Ramp high impact level in the secure cloud. This allows us to bring government-grade security to the larger commercial sector.

- Significant Cost Savings: Our edge solution enables customers to add AI capabilities to their existing IT infrastructure, allowing them to immediately recognize the operational benefits of our AI platform without having to add expensive backend servers. Additionally, our open approach to edge sensors and devices allows customers to extract the full value out of their existing devices compared to the more common industry standard rip and replace approach.

**Market Opportunity**

Airship AI serves a large and rapidly growing addressable market. We determined the total addressable market ("TAM") based upon publicly-available third-party industry reports on the current and projected markets for edge AI hardware and software offerings as well as federal, state, and local grants and set-aside funding for law enforcement, public safety, and community violence intervention efforts.

In addition to the $7 billion combined edge AI hardware and software addressable market by 2029, growing at a blended compounded average growth rate ("CAGR") of 21.8%, for 2023 alone the U.S. government has set aside $3.2 billion in discretionary resources for state and local grants and $30 billion in mandatory resources to support law enforcement, crime prevention, and violence intervention, based on The President's Budget for Fiscal Year 2023.

We believe our existing product market fit in the law enforcement vertical supported by our rapidly growing edge AI hardware and software offerings positions us well in this market. We plan to take advantage of this nexus market opportunity by targeting the larger state and local public safety marketplaces as well as commercial customers where our edge AI platform can allow them to participate in joint public-private ventures to improve public safety for their larger communities.

We expect that our market opportunity will continue to grow as we expand our edge AI hardware and software capabilities allowing us to serve our customers more broadly across their operations.

**Growth Strategy**

For FY 2023, we started with a pipeline of $162 million, consisting largely of U.S. government agency contracts. The opportunities that make up this pipeline include opportunities for expansion within existing agencies as well as new opportunities within the agency and/or new agencies themselves. While many of these opportunities are multi-year engagements which are expected to be highly competitive, they represent years of work of developing the opportunity around our unique value proposition and differentiators in support of a sole source award or to position Airship AI as the company to beat.

While this pipeline represents the path for substantial growth over the next 12-18 months, we are executing a number of strategies which we believe will bring our value proposition to a broader audience in the United States and abroad.

- Embrace Existing Direct Routes to Market While Building A Channel Program: Our focus in the near term is to continue building and expanding relationships with existing customers who we enjoy direct relationships with, while we build partnerships with global integrators who bring capabilities outside our core competencies along with access and placement to customers and verticals which we do not currently enjoy. We believe that these strategies can not only co-exist but be mutually beneficial.

- Expand Our Technology Partnerships and Integrations: Our focus remains on providing a best of breed "single pane of glass" solution for our customers data management challenges, which entails expanding our existing technology partnership ecosystem within our existing customer framework, as well as adjacent verticals. We believe this will drive new customer acquisitions as well as help expand our distribution capability into spaces our partners already participate.

- Commercial Expansion: Based on our existing lighthouse customers and the rapid acceleration of AI in solving public safety and operational challenges, we see significant opportunities for expansion of our platform in the broader commercial marketplace. While we see opportunities across multiple industry verticals, our focus in the short term will be on those verticals that can immediately benefit from the work already done, significantly reducing additional development efforts along with shortening the sales cycle. These verticals include infrastructure, transportation, logistics, and retail.

- Strategic M&A Activities: As part of our commercial landing and government expansion strategies, we plan to focus on strategic acquisition targets with complementary technologies that can rapidly accelerate existing development efforts or add new capabilities to our platform that are supportive of our existing technology partnerships and routes to market strategies.

**Employees**

We employed forty seven employees as of September 30, 2023 and are headquartered in Redmond, WA and are supported by a growing team at our Customer Center of Excellence located in Charlotte, NC as of January 2021. We employed seven research and development personnel in Taiwan as of September 30, 2023.

**Legal Proceedings**

We may become involved in actions, claims, litigation, and other legal proceedings occurring in the ordinary course of its business from time to time, including assertions by third parties relating to intellectual property infringement, contract or warranty breaches, or employment-related matters. We are not currently a party to any actions, claims, suits, or other legal procedures whose conclusion, if not determined in our favor, would have a major adverse effect on our business, financial condition, or results of operations, either individually or in the aggregate.

**Intellectual Property**

We do not have any patents and instead rely on trade secrets and know-how in the development of our business. Although large technology companies use patent portfolios as a means of strategic and legal deterrence, we believe it is more advantageous not to disclose our proprietary know-how.

**Properties**

On July 13, 2023, Airship AI entered into a lease in Redmond, WA for 15,567 square feet of office and warehouse space which started October 1, 2023. The monthly payment is $25,000 per month. The lease expires October 31, 2027 and the monthly payment increases 3% on July 31, 2024 and each year thereafter. There is a one three year option to extend based on the fair market rate on October 31, 2027.

We believe that all our properties have been adequately maintained, are generally in good condition, and are suitable and adequate for our business.

**Changes in Registrant's Certifying Accountant**

On December 21, 2023, the audit committee of the Board dismissed Marcum LLP ("Marcum"), BYTS' independent registered public accounting firm prior to the Business Combination following the completion of the Company's review of the fiscal year ended September 30, 2023, which consists only of the accounts of BYTS prior to the Business Combination. We notified Marcum of their dismissal on December 27, 2023. Marcum will retain the ability to issue a consent to the use of audit reports issued to date, in accordance with professional standards.

The report of Marcum on the financial statements of BYTS as of December 31, 2022 and 2021 and for the year ended December 31, 2022 and for the period from January 8, 2021 (inception) through December 31, 2021 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainties, audit scope or accounting principles, except for an explanatory paragraph as to BYTS' ability to continue as a going concern.

During the fiscal year ended December 31, 2022 and the period from January 8, 2021 (inception) through December 31, 2021 and the subsequent interim period through September 30, 2023, there were no disagreements between BYTS and Marcum on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Marcum, would have caused it to make reference to the subject matter of the disagreements in its report.

During the fiscal year ended December 31, 2022 and the period from January 8, 2021 (inception) through December 31, 2021 and the subsequent interim period through September 30, 2023, there were no "reportable events" (as that term is defined in Item 304(a)(1)(v) of Regulation S-K), other than the material weaknesses in internal controls identified by management related to complex financial instruments and accruals.

On December 21, 2023, the audit committee of the Board appointed BPM LLP ("BPM") as the Company's independent registered public accounting firm to audit the Company's consolidated financial statements as of and for the year ending December 31, 2023. BPM served as the independent registered public accounting firm of Airship AI prior to the Business Combination.

During the years ended December 31, 2022 and 2021 and any subsequent interim period through December 28, 2023, neither the Company nor any party on behalf of the Company consulted with BPM with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, and no written report or oral advice was provided to the Company by BPM that was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

## DIRECTORS AND EXECUTIVE OFFICERS

### Executive Officers and Directors

Our directors and executive officers are as follows:

| Name | Age | Position |
|---|---|---|
| Victor Huang | 54 | Chief Executive Officer and Chairman of the Board and Director |
| Derek Xu | 66 | Chief Operating Officer, Secretary, Treasurer and Director |
| Paul Allen | 54 | President |
| Yanda Ma | 45 | Chief Technology Officer |
| Mark E. Scott | 70 | Chief Financial Officer |
| Peeyush Ranjan | 49 | Director |
| Louis Lebedin | 65 | Director |
| Amit Mital | 54 | Director |

### Background and Business Experience

**Victor Huang** joined Airship AI as its first employee in October 2004. Mr. Huang has served as our Chief Executive Officer and Chairman of the Board since December 2023. He has served as Airship AI's Chief Executive Officer since April 2007 and a member of the Board of Directors of Airship AI since March 2005 and as Chairman of the Board beginning in January 2012. From June 1996 to September 2004, Mr. Huang was an independent trader and investor. From January 1992 to June 1996, Mr. Huang worked at Smith Barney as a financial consultant. Mr. Huang attended University of Washington where he studied business administration.

**Derek Xu** is a co-founder of Airship AI. Mr. Xu has served as our Chief Operating Officer, Secretary and Treasurer and a member of the Board since December 2023. He has served as Airship AI's Chief Operating Officer, Secretary and Treasurer since March 2022 and as a member of the Board of Directors since the incorporation of Airship AI in 2003. Mr. Xu also previously served as Airship AI's Chief Technology Officer from April 2007. Prior to 2003, Mr. Xu co-founded and sold his Web service company that provided eCommerce solutions for small businesses. Before that, Mr. Xu worked in leadership positions at various tech companies where he helped develop and launch several Web based products for financial institutions. Mr. Xu holds a Ph.D. degree in Geophysics from University of Washington.

**Paul Allen** has served as our President since December 2023. He has served as Airship AI's President since 2019. Mr. Allen joined Airship AI as the Director of Business Development in 2015 and was promoted to Vice President of Sales in 2017 before being promoted to President in 2019. Prior to joining Airship AI, Mr. Allen was partner at a boutique firm in Northern Virginia, providing technical goods and services to the U.S. Government and Department of Defense, which he left following a successful private acquisition. Mr. Allen previously spent 14 years with IBM, leaving as a Business Unit Executive in their partner channel organization to pursue a career in direct support of the U.S. Government and Department of Defense. Mr. Allen retired from the U.S. Army 1 $^{st}$ Special Forces Command in 2021 with over 28 years of service, the majority of which he spent in the U.S. Army Special Forces as a Green Beret, retiring as the 3 $^{rd}$ Battalion 20$^{th}$ Special Forces Group (National Guard) Senior Warrant Officer at the rank of Chief Warrant Officer 3 (CW3). Mr. Allen holds a bachelor's degree in Strategic Studies & Defense Analysis from Norwich University.

**Yanda Ma** has served as our Chief Technology Officer since December 2023. He has served as Airship AI's Chief Technology Officer since March 2022. Previously, Mr. Ma was Airship AI's Vice President Engineering, a position he held from 2005. His primary role is aligning the direction of engineering and product development to the strategic goals of Airship AI. To that end, over the years Mr. Ma has developed multiple evolutions of Airship AI's product offerings from introducing Airship Enterprise Management, re-focusing with a government specific surveillance solution, delivering innovative edge solutions such as Nexus Outpost and creating value-add through end-to-end solution sets. Mr. Ma holds a bachelor's degree in EECS from U.C. Berkeley. He has over twenty years of technology leadership experience in the streaming video and security industries and has been awarded multiple patents for key technologies he has helped develop over the course of his career.

**Mark E. Scott** has served as our Chief Financial Officer since December 2023. He served as Interim Chief Financial Officer of Airship AI from November 2021 and served as a consultant from February 2021 to November 2021. Mr. Scott has served as Chief Financial Officer of Lumen Eight Media Holdings LLC, a digital sign company, from 2016 to present and as Chief Financial Officer for Valterra Partners LLC, a private equity firm, from 2017 to present. Mr. Scott also served as a consultant and Chief Financial Officer of Valuto, Inc., a bitcoin kiosk company, from January 2021 to November 2021. Mr. Scott served as Consulting Chief Financial Officer from August 2014 to November 2017 and Chief Financial Officer from November 2017 to December 2020 of GrowLife, Inc., an equipment supplier to the cultivation industry. Mr. Scott also served as a member of the Board of Directors and Secretary of GrowLife, Inc. from May 2014 to October 2015 and again from February 2017 to December 2020. Mr. Scott has operated a wholly owned consulting firm where he advises companies on financial matters since 2014 to current. Mr. Scott has significant financial, SEC and merger and acquisition experience in public and private microcap companies from 1976 to current. Mr. Scott is a certified public accountant and received a Bachelor of Arts in Accounting from the University of Washington.

**Peeyush Ranjan** has served as a member of the Board since December 2023. From 2017 to present and from 2006-2015, Mr. Ranjan has served as VP, Director or Manager of Engineering at Google, a technology services firm. From 2015 to 2016, he was CTO of Flipkart, an e-commerce services company based in India, and a VP of Engineering at Airbnb. Previously, he was part of engineering teams at Consera Technologies, Hewlett Packard, Infospace, Inc. and Microsoft. He holds a B.Tech. degree in Computer Science from IIT Kharagpur, an M.S. in Computer Science from Purdue University and an M.B.A. in Technology Management from University of Washington.

**Louis Lebedin** has served as a member of the Board since March 2021. Mr. Lebedin has over 25 years of banking experience with a proven track record of building and leading a world class business. From 2017 to 2019, Mr. Lebedin served as an advisor to Unio Capital LLC, an asset management firm, responsible for product development. From 2006 to 2012, Mr. Lebedin was global head of JP Morgan's prime brokerage business, a leading provider of clearing and financing services for equity and fixed income hedge funds. He was responsible for defining and executing the strategy for the business, to expand its market share while continuing to meet the evolving needs of its hedge fund clients. From 2008 to 2012, Mr. Lebedin served on JP Morgan Clearing Corp.'s Operations Committee and the Equities Division's Executive Committee. From 2001 to 2005, Mr. Lebedin was the chief operating officer and chief financial officer of Bear Stearns's Global Clearing Services division. Mr. Lebedin joined the Clearance Division in 1988 assuming the role of controller before being promoted to chief financial officer in 1996. From 1980 to 1987, he worked at Coopers & Lybrand, rising to the level of audit manager specializing in financial services. Mr. Lebedin holds a B.S. in accounting from Syracuse University, and he earned his CPA license in 1982.

**Amit Mital** has served as a member of the Board since December 2023. Mr. Mital has over two decades of experience in the tech field and currently serves as CEO and founder of Kernel Labs, which focuses on machine learning, virtual reality and cybersecurity, a position he also held from 2018 to 2021. From 2021 to 2022, Mr. Mital was on the National Security Council (NSC) as the senior director for cybersecurity strategy and policy and also served in the White House as a special assistant to the President. Before Kernel Labs, Mr. Mital was chief technology officer at Symantec Corporation, where he oversaw technology strategy for the cybersecurity company from 2013-2015. While at Kernel Labs, Mr. Mital was also co-founder and chairman of the blockchain-based distributed identification platform Trusted Key, which was later acquired by Workday. Mr. Mital's longest-tenured job came at Microsoft, where he worked as a corporate vice president for 20 years, and as a general manager concurrently for seven years. Mr. Mital holds a Master of Science degree in Engineering from Dartmouth College.

**Board Composition**

The Company's business and affairs are managed under the direction of the Board. The Board consists of five directors, including three independent directors, namely Amit Mital, Peeyush Ranjan and Louis Lebedin. A director is not required to hold any shares in the Company to qualify as a director.

**Director Independence**

Nasdaq rules generally require that independent directors must comprise a majority of a listed company's board of directors. Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, including family relationships, the Company has determined that Peeyush Ranjan, Louis Lebedin, and Amit Mital, representing three of the Company's five directors, are "independent" as defined in the Nasdaq listing standards and applicable SEC rules.

**Role of the Board in Risk Oversight**

The Board will have extensive involvement in the oversight of risk management related to the Company and its business and will accomplish this oversight through the regular reporting to the Board by the audit committee. The audit committee will represent the Board by periodically reviewing the Company's accounting, reporting and financial practices, including the integrity of its financial statements, the surveillance of administrative and financial controls and its compliance with legal and regulatory requirements. Through its regular meetings with management, including the finance, legal, internal audit and information technology functions, the audit committee will review and discuss all significant areas of the Company's business and summarize for the Board all areas of risk and the appropriate mitigating factors. In addition, the Board will receive periodic detailed operating performance reviews from management.

**Controlled Company Exemption**

Victor Huang, Airship AI's co-Founder and our Chief Executive Officer, and Derek Xu, Airship AI's co-Founder and our Chief Operating Officer, beneficially own (including shares underlying Converted Warrants, Converted Stock Options and Converted SARs) approximately 62.3% of the combined voting power for the election of directors to the Board, and, as a result, the Company is considered a "controlled company" for the purposes of Nasdaq listing rules. For so long as the Company remains as a controlled company under that definition, it is permitted to elect to rely on certain exemptions from certain corporate governance requirements, including that a majority of the Company consist of "independent directors," as defined under Nasdaq listing rules. In addition, the Company is not required to have a nominating and corporate governance committee or compensation committee that is composed entirely of independent directors with written charters addressing the committees' purposes and responsibilities and an annual performance evaluation of these committees.

If at any time the Company ceases to be a "controlled company" under Nasdaq listing rules, the Board intends to take any action that may be necessary to comply with Nasdaq listing rules, subject to a permitted "phase-in" period.

**Board Committees**

The Board has established an audit committee, a compensation committee and a nominating and corporate governance committee, which have the responsibilities and authority necessary to comply with applicable Nasdaq and SEC rules. The Board may from time to time establish other committees.

The Company's chief executive officer and other executive officers will regularly report to the non-executive directors and the audit, the compensation and the nominating and corporate governance committees to ensure effective and efficient oversight of the Company's activities and to assist in proper risk management and the ongoing evaluation of management controls. We believe that the leadership structure of the Board will provide appropriate risk oversight of the Company's activities.

*Audit Committee*

Amit Mital, Peeyush Ranjan and Louis Lebedin serve as members of the audit committee of the Company (the "Audit Committee"), with Mr. Mital serving as the chairperson. Each of the members of the Audit Committee satisfies all independence requirements under the applicable rules and regulations of the SEC and Nasdaq. Our Board has determined that Louis Lebedin possesses accounting or related financial management experience that qualifies him as an "audit committee financial expert" as defined by the rules and regulations of the SEC and Nasdaq.

The Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements. The Audit Committee is generally responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions as defined by applicable law or Nasdaq listing requirements;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

*Compensation Committee*

Peeyush Ranjan and Amit Mital serve as members of the compensation committee of the Company (the "Compensation Committee"), with Mr. Ranjan serving as the chairperson. Each of the members of the Compensation Committee satisfies the independence requirements under the applicable rules and regulations of the SEC and Nasdaq.

The Compensation Committee is generally responsible for overseeing and making recommendations to the Board regarding the salaries and other compensation of our Executive Officers and general employees and providing assistance and recommendations with respect to our compensation policies and practices. The Compensation Committee is generally responsible for, among other things:

- reviewing and approving the corporate goals and objectives applicable to the compensation of the chief executive officer, evaluating the chief executive officer's performance, and determining and approving the chief executive officer's compensation level based on this evaluation;
- reviewing and approving the compensation of all other Executive Officers;
- reviewing, approving and recommending incentive compensation plans and equity-based plans to the Board and stockholders of the Company for approval, and administering the Company's incentive compensation plans, equity-based plans and the clawback policy;
- reviewing, approving and recommending employment agreements and severance arrangements or plans to the Board for approval;
- reviewing all Director compensation and benefits for service on the Board and Board committees, and recommending any changes to the Board as necessary; and
- overseeing, in conjunction with the Nominating and Corporate Governance Committee, engagement with stockholders and proxy advisory firms on executive compensation matters.

*Nominating and Corporate Governance Committee*

Peeyush Ranjan and Amit Mital serve as members of the nominating and governance committee of the Company (the "Nominating and Governance Committee"), with Mr. Ranjan serving as the chairperson.

The Nominating and Governance Committee is generally responsible for identifying and proposing new potential director nominees to the Board for consideration and for reviewing our corporate governance policies. The Nominating and Governance Committee is generally responsible for, among other things:

- determining the qualifications, qualities, skills, and other expertise required to be a Director, and developing and recommending to the Board the criteria to be considered in selecting director nominees for the Board's approval;
- identifying and screening individuals qualified to become members of the Board, and considering any director candidates recommended by the Company's stockholders;
- selecting and approving the director nominees to be submitted to a stockholder vote at the stockholders' annual meeting, subject to approval by the Board;
- developing and recommending to the Board a set of corporate governance guidelines applicable to the Company, reviewing these principles and recommending any changes to the Board;
- overseeing the Company's corporate governance practices and procedures, including identifying best practices, and reviewing and recommending to the Board for approval any changes to the documents, policies and procedures in the Company's corporate governance framework;
- reviewing the Board's committee structure and composition and to make recommendations to the Board annually regarding the appointment of directors to serve as members of each committee and committee chairmen;

- if a vacancy on the Board and/or any Board committee occurs, identifying and making recommendations to the Board regarding the selection and approval of candidates to fill such vacancy either by election by stockholders or appointment by the Board;
- developing and overseeing a Company orientation program for new Directors and a continuing education program for current Directors, periodically reviewing these programs and updating them as necessary;
- reviewing and discussing with management disclosure of the Company's corporate governance practices;
- developing and recommending to the Board for approval an officer succession plan, to review such succession plan periodically with the chief executive officer, developing and evaluating potential candidates for executive positions, and recommending to the Board any changes to and any candidates for succession under the succession plan.

**Code of Business Conduct**

The Company has adopted code of business conduct that applies to all of its directors, officers and employees, including its principal executive officer, principal financial officer and principal accounting officer. The Company's code of business conduct is a "code of ethics," as defined in Item 406(b) of Regulation S-K. Please note that the Company's Internet website address is provided as an inactive textual reference only. The Company will make any legally required disclosures regarding amendments to, or waivers of, provisions of its code of ethics on its Internet website.

**Compensation Committee Interlocks and Insider Participation**

None of the members of our compensation committee was at any time one of the Company's officers or employees. None of the Company's executive officers currently serves, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity, one of whose executive officers served as a member of our board of directors or compensation committee.

**Stockholder and Interested Party Communications**

Stockholders and interested parties may communicate with our board of directors, any committee chairperson or the non-management directors as a group by writing to the board or committee chairperson in care of Airship AI Holdings, Inc., 8210 154th Ave NE, Redmond, WA 98052. Each communication will be forwarded, depending on the subject matter, to the board of directors, the appropriate committee chairperson or all non-management directors.

**Limitations of Liability and Indemnification of Directors and Officers**

The Delaware General Corporation Law authorizes corporations to limit or eliminate, subject to certain conditions, the personal liability of directors to corporations and their stockholders for monetary damages for breach of their fiduciary duties. Our Charter limits the liability of our directors to the fullest extent permitted by Delaware law.

We have purchased and intend to maintain director and officer liability insurance to cover liabilities our directors and officers may incur in connection with their services to the Company, including matters arising under the Securities Act. Our Charter and bylaws also provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law. Our bylaws further provide that we will indemnify any other person whom we have the power to indemnify under Delaware law. In addition, we have entered into customary indemnification agreements with each of our officers and directors.

There is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification will be required or permitted. We are not aware of any threatened litigation or proceedings that may result in a claim for such indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, executive officers or persons controlling the Company, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## EXECUTIVE COMPENSATION

*Unless the context requires otherwise, references to "Airship AI," "we," "us," "our" and "the Company" in this section are to the business and operations of Airship AI prior to the Business Combination and the business and operations of the Company as directly or indirectly affected by Airship AI by virtue of the Company's ownership of the business of Airship AI following the Business Combination.*

*This section discusses the material components of the executive compensation program for (i) the individual who served as our principal executive officer during fiscal years 2023 and 2022; and (ii) our next two most highly compensated executive officers who earned more than $100,000 during fiscal years 2023 and 2022 and were serving as executive officers as of December 31, 2023 or 2022. We refer to these individuals as our "named executive officers."*

*This discussion may contain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt following the Business Combination may differ materially from the currently planned programs summarized in this discussion. As an "emerging growth company" as defined in the JOBS Act, we are not required to include a Compensation Discussion and Analysis section and have elected to comply with the scaled disclosure requirements applicable to emerging growth companies.*

### Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for the years ended December 31, 2023 and 2022:

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($)[1] | Non-Equity Incentive Plan ($)[1] | Option Awards ($)[1] | Other Compensation | Total ($) |
|---|---|---|---|---|---|---|---|---|
| Victor Huang | 2023 | 399,145 | - | - | 1,068,058 | - | - | 1,467,203 |
| *Chief Executive Officer* | 2022 | 364,167 | - | - | | - | - | 364,167 |
| Derek Xu | 2023 | 388,000 | - | - | 1,068,058 | - | | 1,456,058 |
| *Chief Operating Officer* | 2022 | 371,833 | - | - | | - | | 371,833 |
| Paul Allen[2] | 2023 | 300,000 | 32,942 | - | - | 317,519 | | 650,461 |
| *President* | 2022 | 300,000 | 42,178 | - | - | 317,520 | | 659,698 |
| Yanda Ma | 2023 | 227,500 | - | - | - | - | | 227,500 |
| *Chief Technology Officer* | 2022 | 200,000 | 29,500 | - | - | - | | 229,500 |
| Mark E. Scott | 2023 | 200,237 | - | - | - | 66,279 | | 266,516 |
| *Interim Chief Financial Officer* | 2022 | 183,333 | - | - | - | 33,139 | | 216,472 |

(1) These amounts reflect the grant date market value as required by Regulation S-K Item 402(n)(2), computed in accordance with FASB ASC Topic 718.

(2) Mr. Allen was paid a discretionary annual bonus of $42,178 during the year ended December 31, 2022. See "*Outstanding Equity Awards as of the Year Ended December 31, 2022*" for a discussion of option award compensation.

**Outstanding Equity Awards as of the Years Ended December 31, 2023 and 2022**

The following table summarizes the number of shares of Airship Common Stock underlying outstanding equity incentive plan awards for each named executive officer as of December 31, 2023 and 2022. The number of shares subject to Airship Options that are outstanding at the effective time of the Merger, and the exercise price of such Airship Options, will be adjusted to reflect the Business Combination.

| | | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|---|
| Name | | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexerciseable | Option Exercise Price ($) | Option Expiration Date | Number of Shares That Have Not Vested (#) | Market Value of Shares That Have Not Vested ($) |
| Victor Huang[1] | 2023 | | — | 0.12 | 1/15/2032 | — | — |
| | 2022 | 1,000,000 | | 0.20 | 1/16/2027 | | |
| Victor Huang — SARS[1] | 2023 | 1,758,105 | — | 0.12 | 2/16/2032 | — | — |
| | 2022 | 1,000,000 | | 0.20 | 1/16/2027 | | |
| Derek Xu | 2023 | — | — | — | — | — | — |
| | 2022 | — | — | — | — | — | — |
| Paul Allen[2] | 2023 | 935,058 | | 0.57 | 1/15/2032 | — | — |
| | 2022 | 398,892 | 132,964 | 1.00 | 1/16/2027 | | |
| Yanda Ma | 2023 | 797,698 | | 0.12 | 1/15/2032 | | |
| | 2022 | | | | | | |
| Mark E. Scott | 2023 | 43,952 | | 0.57 | 1/15/2032 | | |
| | 2023 | 43,952 | | 1.64 | 8/06/2033 | | |
| | 2022 | | | | | | |

(1) On January 16, 2018, Mr. Huang received a stock option grant to purchase 1,000,000 shares of common stock, with an exercise price of $0.20 per share. As of December 31, 2022, 1,000,000 shares were vested. These shares were valued at $0.19 per share, or $190,000, as of the date of grant. On January 16, 2018, Mr. Huang received 1,000,000 stock appreciation rights for past service. The stock appreciation rights each has a base value of $0.20 per share.

(2) On January 16, 2022, Mr. Allen received a stock option grant to purchase 531,856 shares of common stock, with an exercise price of $1.00 per share. Of these options, 265,928 vested immediately, 132,964 vested on December 31, 2022 and 132,964 will vest on December 31, 2023. As of December 31, 2022, 398,892 shares were vested. These options were valued at grant date Black-Scholes value of $2.39 per share, or $1,270,078.

**Executive Compensation Arrangements**

Other than the annual compensation, bonus and equity incentive awards described above, the Company has no other executive compensation, change in control or similar agreements or arrangements.

**2022 Combined Incentive and Non-Qualified Stock Option Plan**

Related to the Share Exchange Agreement with Super Simple AI, Inc., on February 17, 2022, the Company's Board of Directors approved the 2022 Combined Incentive and Non-Qualified Stock Option Plan (the "2022 Plan") to issue options to acquire a maximum of 3,000,000 common stock shares. Effective upon the Closing, the 2022 Plan will no longer be available for use for the grant of future awards. The 2022 Plan will continue to govern the terms of awards that have been granted under the 2022 Plan before, and that are still outstanding following, the Merger.

The 2022 Plan provides for the grant of stock options, including options that are intended to qualify as "incentive stock options" under Section 422 of the Code, as well as non-qualified stock options. Each award is set forth in a separate agreement with the person who received the award which indicates the type, terms and conditions of the award.

*Certain Transactions*

If as a result of any reorganization, recapitalization, stock dividend, stock split, reverse stock split or other similar change in our capital stock, the outstanding shares of common stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company without the receipt of consideration by the Company, or, if, as a result of any merger or consolidation, or sale of all or substantially all of the assets of the Company, the outstanding shares are converted into or exchanged for other securities of the Company. or any successor entity, the administrator shall make an appropriate and proportionate adjustment in (i) the maximum number of shares reserved for issuance under the 2022 Plan, (ii) the number and kind of shares or other securities subject to any then outstanding awards under the 2022 Plan, (iii) the repurchase price, if any, per share subject to each outstanding award, and (iv) the exercise price for each share subject to any then outstanding options under the 2022 Plan.

*Amendment and Termination*

Our board of directors may terminate or amend the 2022 Plan at any time, but no such action shall adversely affect rights under any outstanding award without the holder's consent. However, we must generally obtain stockholder approval for any such amendments to the extent required by applicable law. The administrator may exercise its discretion to reduce the exercise price of outstanding stock options to the then current fair market value if the fair market value of the common stock covered by such option has declined since the date the option was granted, without the approval of the Company's stockholders.

Upon consummation of the Business Combination, each outstanding option under the 2022 Plan that was outstanding as of immediately prior to the Effective Time converted into (i) an option (each, a "Converted Stock Option"), on substantially the same terms and conditions as are in effect with respect to such award immediately prior to the Effective Time, to purchase the number of shares of Common Stock, determined by multiplying the number of shares of common stock subject to such award as of immediately prior to the Effective Time by the Conversion Ratio, at an exercise price per share of Common Stock equal to (A) the exercise price per share of common stock of such award divided by (B) the Conversion Ratio, and (ii) the right to receive a number of Earnout Shares in accordance with, and subject to, the contingencies set forth in the Merger Agreement.

**Stock Appreciation Rights Plan**

Related to the Share Exchange Agreement with Super Simple AI, Inc., on February 17, 2022, the Company's Board of Directors approved the 2022 Stock Appreciation Rights Plan (the "SAR Plan") to issue a maximum of 1,500,000 stock appreciation rights ("SAR").

As of December 31, 2022, there were one 1,000,000 SARs outstanding with a base value of $0.20 and January 2028 expiration.

*Payment of Appreciation Amount*

The appreciation distribution in respect to a SAR may be paid in cash, in common stock of the Company, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the stock appreciation rights agreement evidencing such SAR.

*Amendment and Termination*

Our board of directors may terminate or amend the SAR Plan at any time, but no such action shall adversely affect rights under any outstanding award without the holder's consent.

Upon consummation of the Business Combination, each SAR granted under the SAR Plan that was outstanding immediately prior to the Effective Time converted into a stock appreciation right denominated in shares of Common Stock (each, a "Converted SAR"). Each Converted SAR will continue to have and be subject to substantially the same terms and conditions as were applicable to such SAR immediately prior to the Effective Time, except that (i) each Converted SAR will cover that number of shares of Common Stock equal to (A) the product of (1) the number of shares of common stock subject to such SAR immediately prior to the Effective Time and (2) the Conversion Ratio and (B) a number of Earnout Shares in accordance with, and subject to, the contingencies set forth in the Merger Agreement, and (ii) the per share base value for each share of Common Stock covered by the Converted SAR will be equal to the quotient obtained by dividing (A) the base value per share of common stock of such SAR immediately prior to the Effective Time by (B) the Conversion Ratio.

**2023 Equity Incentive Plan**

The Company has adopted the Equity Incentive Plan, which plan was approved by stockholders at the extraordinary general meeting. This section summarizes certain principal features of the Equity Incentive Plan.

The Equity Incentive Plan is a comprehensive incentive compensation plan under which the Company can grant equity-based and other incentive awards to its officers, employees, directors, consultants and advisers. The purpose of the Equity Incentive Plan is to help the Company attract, motivate and retain such persons with awards under the Equity Incentive Plan and thereby enhance shareholder value.

*Administration.* The Equity Incentive Plan is administered by the Board, and upon consummation of the Business Combination will be administered by the compensation committee of the Board, which shall consist of three members of the Board, each of whom is a "non-employee director" within the meaning of Rule 16b-3 promulgated under the Exchange Act and "independent" for purposes of any applicable listing requirements. If a member of the compensation committee is eligible to receive an award under the Equity Incentive Plan, such compensation committee member shall have no authority under the plan with respect to his or her own award. Among other things, the compensation committee has complete discretion, subject to the express limits of the Equity Incentive Plan, to determine the directors, employees and nonemployee consultants to be granted an award, the type of award to be granted the terms and conditions of the award, the form of payment to be made and/or the number of shares of common stock subject to each award, the exercise price of each option and base price of each stock appreciation right ("SAR"), the term of each award, the vesting schedule for an award, whether to accelerate vesting, the value of the common stock underlying the award, and the required withholding, if any. The compensation committee may amend, modify or terminate any outstanding award, provided that the participant's consent to such action is required if the action would impair the participant's rights or entitlements with respect to that award. The compensation committee is also authorized to construe the award agreements, and may prescribe rules relating to the Equity Incentive Plan. Notwithstanding the foregoing, the compensation committee does not have any authority to grant or modify an award under the Equity Incentive Plan with terms or conditions that would cause the grant, vesting or exercise thereof to be considered nonqualified "deferred compensation" subject to Code Section 409A, unless such award is structured to be exempt from or comply with all requirements of Code Section 409A.

*Grant of Awards; Shares Available for Awards.* The Equity Incentive Plan provides for the grant of stock options, SARs, performance share awards, performance unit awards, distribution equivalent right awards, restricted stock awards, restricted stock unit awards and unrestricted stock awards to non-employee directors, officers, employees and nonemployee consultants of the Company or its affiliates. The aggregate number of shares of common stock initially reserved and available for grant and issuance under the Equity Incentive Plan is 4,000,000. Such aggregate number of shares of stock will automatically increase on January 1 of each year for a period of ten years commencing on January 1, 2024 and ending on (and including) January 1, 2033, in an amount equal to 2.0% of the total number of shares of common stock outstanding on December 31 of the preceding year; provided, however, that the Board may act prior to January 1 of a given year to provide that the increase for such year will be a lesser number of shares of common stock. No more than 4,000,000 shares of Common Stock in the aggregate may be issued under the Equity Incentive Plan in connection with incentive stock options. Shares shall be deemed to have been issued under the Equity Incentive Plan solely to the extent actually issued and delivered pursuant to an award. If any award granted under the Equity Incentive Plan expires, is cancelled, or terminates unexercised or is forfeited, the number of shares subject thereto is again available for grant under the Equity Incentive Plan, other than any shares tendered or withheld in order to exercise or satisfy withholding obligation in respect of any award. The Equity Incentive Plan shall continue in effect, unless sooner terminated, until the tenth ($10^{th}$) anniversary of the date on which it is adopted by the Board.

Following the Closing, it is expected that all of our employees, consultants, advisors and service providers and all of our non-executive officer directors will be eligible to participate in the Equity Incentive Plan. Future new hires and additional non-employee directors and/or consultants would be eligible to participate in the Equity Incentive Plan as well. The number of stock options and/or shares of restricted stock to be granted to executives and directors cannot be determined at this time as the grant of stock options and/or shares of restricted stock is dependent upon various factors such as hiring requirements and job performance.

*Non-Employee Director Compensation Limit.* The Equity Incentive Plan provides for a limit on non-employee director compensation. The maximum number of shares of stock that may be subject to an award granted under the Equity Incentive Plan during any single fiscal year to any non-employee director, when taken together with any cash fees paid to such non-employee director during such year in respect of his or her service as a non-employee director (including service as a member or chair of any committee of the board), shall not exceed $250,000 in total value (calculating the value of any such award based on the fair market value on the date of grant of such award for financial reporting purposes).

*Stock Options.* The Equity Incentive Plan provides for the grant of either "incentive stock options" ("ISOs"), which are intended to meet the requirements for special federal income tax treatment under Section 422 of the Code, or "nonqualified stock options" ("NQSOs"). Stock options may be granted on such terms and conditions as the compensation committee may determine, which shall be specified in the option agreement; provided, however, that the per share exercise price under a stock option may not be less than the fair market value of a share of common stock on the date of grant and the term of the stock option may not exceed 10 years (110% of such value and five years in the case of an ISO granted to an employee who owns (or is deemed to own) more than 10% of the total combined voting power of all classes of capital stock of our company or a parent or subsidiary of our company). ISOs may only be granted to employees. In addition, the aggregate fair market value of common stock covered by one or more ISOs (determined at the time of grant), which are exercisable for the first time by an employee during any calendar year may not exceed $100,000. Any excess is treated as a NQSO.

*Stock Appreciation Rights.* A SAR entitles the participant, upon exercise, to receive an amount, in cash or stock or a combination thereof, equal to the increase in the fair market value of the underlying common stock between the date of grant and the date of exercise. The compensation committee shall set forth in the applicable SAR award agreement the terms and conditions of the SAR, including the base value for the SAR (which shall not be less than the fair market value of a share on the date of grant), the number of shares subject to the SAR and the period during which the SAR may be exercised and any other special rules and/or requirements which the compensation committee imposes on the SAR. No SAR shall be exercisable after the expiration of ten (10) years from the date of grant. SARs may be granted in tandem with, or independently of, stock options granted under the Equity Incentive Plan. A SAR granted in tandem with a stock option (i) is exercisable only at such times, and to the extent, that the related stock option is exercisable in accordance with the procedure for exercise of the related stock option; (ii) terminates upon termination or exercise of the related stock option (likewise, the common stock option granted in tandem with a SAR terminates upon exercise of the SAR); (iii) is transferable only with the related stock option; and (iv) if the related stock option is an ISO, may be exercised only when the value of the stock subject to the stock option exceeds the exercise price of the stock option. A SAR that is not granted in tandem with a stock option is exercisable at such times as the compensation committee may specify.

*Performance Shares and Performance Unit Awards.* Performance share and performance unit awards entitle the participant to receive cash or shares of common stock upon the attainment of specified performance goals. In the case of performance units, the right to acquire the units is denominated in cash values. The compensation committee shall set forth in the applicable award agreement the performance goals and objectives and the period of time to which such goals and objectives shall apply. If such goals and objectives are achieved, such distribution of shares, or payment in cash, as the case may be, shall be made no later than by the fifteenth ($15^{th}$) day of the third ($3^{rd}$) calendar month next following the end of the company's fiscal year to which such performance goals and objectives relate, unless otherwise structured to comply with Code Section 409A.

*Distribution Equivalent Right Awards.* A distribution equivalent right award entitles the participant to receive bookkeeping credits, cash payments and/or common stock distributions equal in amount to the distributions that would have been made to the participant had the participant held a specified number of shares of common stock during the period the participant held the distribution equivalent right. A distribution equivalent right may be awarded as a component of another award (but not an option or SAR award) under the Equity Incentive Plan, where, if so awarded, such distribution equivalent right will expire or be forfeited by the participant under the same conditions as under such other award. The compensation committee shall set forth in the applicable distribution equivalent rights award agreement the terms and conditions, if any, including whether the holder is to receive credits currently in cash, is to have such credits reinvested (at fair market value determined as of the date of reinvestment) in additional shares of common stock, or is to be entitled to choose among such alternatives.

*Restricted Stock Awards.* A restricted stock award is a grant or sale of common stock to the holder, subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the compensation committee or the board of directors may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such instalments or otherwise, as the compensation committee or the board of directors may determine at the date of grant or purchase or thereafter. If provided for under the restricted stock award agreement, a participant who is granted or has purchased restricted stock shall have all of the rights of a shareholder, including the right to vote the restricted stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the compensation committee or the board of directors or in the award agreement). During the restricted period applicable to the restricted stock, subject to certain exceptions, the restricted stock may not be sold, transferred, pledged, exchanged, hypothecated, or otherwise disposed of by the participant.

*Restricted Stock Unit Awards.* A restricted stock unit award provides for a grant of shares or a cash payment to be made to the holder upon the satisfaction of predetermined individual service-related vesting requirements, based on the number of units awarded to the holder. The compensation committee shall set forth in the applicable restricted stock unit award agreement the individual service-based vesting requirements which the holder would be required to satisfy before the holder would become entitled to payment and the number of units awarded to the holder. The holder of a restricted stock unit shall be entitled to receive a cash payment equal to the fair market value of a share of common stock, or one share of common stock, as determined in the sole discretion of the compensation committee and as set forth in the restricted stock unit award agreement, for each restricted stock unit subject to such restricted stock unit award, if and to the extent the holder satisfies the applicable vesting requirements. Such payment or distribution shall be made no later than by the fifteenth ($15^{th}$) day of the third ($3^{rd}$) calendar month next following the end of the calendar year in which the restricted stock unit first becomes vested, unless otherwise structured to comply with Code Section 409A. A restricted stock unit shall not constitute an equity interest in the company and shall not entitle the holder to voting rights, dividends or any other rights associated with ownership of shares prior to the time the holder shall receive a distribution of shares.

*Unrestricted Stock Awards.* An unrestricted stock award is a grant or sale of shares of common stock to the employees, non-employee directors or non-employee consultants that are not subject to transfer, forfeiture or other restrictions, in consideration for past services rendered to the company or an affiliate or for other valid consideration.

*Adjustment to Shares.* Subject to any required action by shareholders of the company, the number of shares of common stock covered by each outstanding award shall be proportionately adjusted for any increase or decrease in the number of issued shares resulting from a subdivision or consolidation of shares, including, but not limited to, a stock split, reverse stock split, recapitalization, continuation or reclassification, or the payment of a stock dividend (but only on the stock) or any other increase or decrease in the number of such shares effected without receipt of consideration by the company.

*Change-in-Control Provisions.* The compensation committee may, in its sole discretion, at the time an award is granted or at any time prior to, coincident with or after the time of a change in control, cause any award either (i) to be cancelled in consideration of a payment in cash or other consideration in amount per share equal to the excess, if any, of the price or implied price per share of common stock in the change in control over the per share exercise, base or purchase price of such award, which may be paid immediately or over the vesting schedule of the award; (ii) to be assumed, or new rights substituted therefore, by the surviving corporation or a parent or subsidiary of such surviving corporation following such change in control; (iii) accelerate any time periods, or waive any other conditions, relating to the vesting, exercise, payment or distribution of an award so that any award to a holder whose employment has been terminated as a result of a change in control may be vested, exercised, paid or distributed in full on or before a date fixed by the compensation committee; (iv) to be purchased from a holder whose employment has been terminated as a result of a change of control, upon the holder's request, for an amount of cash equal to the amount that could have been obtained upon the exercise, payment or distribution of such rights had such award been currently exercisable or payable; or (v) terminate any then outstanding award or make any other adjustment to the awards then outstanding as the compensation committee deems necessary or appropriate to reflect such transaction or change. The number of shares subject to any award shall be rounded to the nearest whole number.

*Transferability.* No award may be assigned, transferred, sold, exchanged, encumbered, pledged or otherwise hypothecated or disposed of by a holder except by will or by the laws of descent and distribution, or by gift to any immediate family member of the holder, subject to compliance with applicable laws.

*Amendment and Termination.* The compensation committee may adopt, amend and rescind rules relating to the administration of the Equity Incentive Plan, and amend, suspend or terminate the Equity Incentive Plan, but no such amendment or termination will be made that materially and adversely impairs the rights of any participant with respect to any award received thereby under the Equity Incentive Plan without the participant's consent, other than amendments that are necessary to permit the granting of awards in compliance with applicable laws. In addition, no amendment that results (directly or indirectly ) in the reduction of the exercise price of an option or SAR or that otherwise requires shareholder approval under applicable law will be made without shareholder approval.

**Director Compensation**

We primarily use monthly fees and stock option grants to attract and retain qualified candidates to serve on the Board. This compensation reflected the financial condition of the Company. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill-level required by our members of the Board. During the year ended December 31, 2023, Victor Huang and Derek Xu did not receive any compensation for their services as directors. The compensation disclosed in the "*Summary Compensation Table*" above represents the total compensation for Mr. Huang and Mr. Xu.

Our independent non-employee directors are compensated in cash and stock option grants. There is no formal stock compensation plan for independent non-employee directors. Our non-employee directors received the following compensation during the year ended December 31, 2023:

| Name and Principal Position | Fees Earned or Paid in Cash ($) | Stock Awards ($)[1] | Non-Equity Incentive Plan Compensation ($)[1] | Option Awards ($)[1] | Non-Qualified Deferred Compensation Earnings ($) | Other Compensation | Total ($) |
|---|---|---|---|---|---|---|---|
| Louis Lebedin | - | - | - | - | - | - | - |
| Amit Mital | - | - | - | 24,038 | - | - | 24,083 |
| Peeyush Ranjan[2] | 60,000 | - | - | 20,813 | - | - | 80,813 |

(1) These amounts reflect the grant date market value as required by Regulation S-K Item 402(r)(2), computed in accordance with FASB ASC Topic 718.

(2) Fees earned were monthly payments of $5,000 paid to Peeyush Ranjan. Mr. Ranjan was appointed to the Board of Directors on November 1, 2021.

## BENEFICIAL OWNERSHIP OF SECURITIES

The following table sets forth information regarding the beneficial ownership of shares of our Common Stock by:

- each person known by us to be the beneficial owner of more than 5% of the outstanding shares of any class of our voting securities;
- each of our current executive officers and directors; and
- all executive officers and directors of the Company as a group.

Percentage of beneficial ownership of Common Stock is based on 22,812,048 shares of Common Stock outstanding as of the date of this prospectus.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to, or the power to receive the economic benefit of ownership of, the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares that the person has the right to acquire within 60 days are included, including through the exercise of any option or other right or the conversion of any other security. However, these shares are not included in the computation of the percentage ownership of any other person.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all of our Ordinary Shares beneficially owned by them.

| Name and Address of Beneficial Owner[1] | Number of Shares of Common Stock Beneficially Owned | % of Outstanding Common Stock |
|---|---|---|
| **Directors and Executive Officers** | | |
| Victor Huang[2] | 8,305,514 | 30.0% |
| Derek Xu[3] | 9,783,856 | 40.5% |
| Paul Allen[4] | 935,058 | 3.9% |
| Yanda Ma[5] | 797,698 | 3.4% |
| Mark E. Scott[6] | 87,904 | * |
| Peeyush Ranjan[7] | 175,809 | * |
| Louis Lebedin | 50,000 | * |
| Amit Mital[8] | 203,061 | * |
| All executive officers and directors as a group (8 individuals) | 20,338,900 | 65.2% |
| | | |
| **5% or More Stockholders:** | | |
| Airship Kirkland Family LP (Victor Huang) [9] | 6,900,563 | 26.2% |
| Airship Redmond Family LP (Derek Xu) [10] | 8,438,905 | 37.0% |
| Mulan Ventures LLC[11] | 1,538,342 | 6.7% |

* Less than 1%

(1) Unless otherwise noted, the business address of each of the directors and executive officers of is c/o Airship AI Holdings, Inc., 8210 154th Ave NE, Redmond, WA 98052.

(2) Includes (i) shares owned by Airship Kirkland Family LP, over which Mr. Huang has voting and dispositive power and (ii) 1,344,951 shares of Common Stock issuable upon the exercise of 1,344,951 Converted Warrants. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement.

(3) Includes (i) shares owned by Airship Redmond Family LP, over which Mr. Xu has voting and dispositive power and (ii) 1,344,951 shares of Common Stock issuable upon the exercise of 1,344,951 Converted Warrants. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement.

(4) Includes 935,058 shares of Common Stock issuable upon the exercise of 935,058 Converted Stock Options. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement.

(5) Includes 797,698 shares of Common Stock issuable upon the exercise of 797,698 Converted Stock Options. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement.

(6) Includes 87,904 shares of Common Stock issuable upon the exercise of 87,904 Converted Stock Options. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement.

(7) Includes 175,809 shares of Common Stock issuable upon the exercise of 175,809 Converted Stock Options. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement.

(8) Includes 203,061 shares of Common Stock issuable upon the exercise of 203,061 Converted Stock Options. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement.

(9) Includes (i) 1,758,105 shares of Common Stock issuable upon the exercise of 1,758,105 Converted Stock Options, and (ii) 1,758,105 shares of Common Stock covering 1,758,105 Converted SARs. Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement. Victor Huang has voting and dispositive power over the shares owned by Airship Kirkland Family LP.

(10) Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement. Derek Xu has voting and dispositive power over the shares owned by Airship Redmond Family LP.

(11) Excludes the right to receive a number of Earnout Shares, in accordance with and subject to the contingencies set forth in the Merger Agreement. Jane Cui has voting and dispositive power over the shares owned by Mulan Ventures LLC.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

**BYTE Acquisition Corp.**

*Founder Shares*

On January 22, 2021, the Sponsor paid an aggregate of $25,000 to cover certain offering costs of BYTS in consideration for 8,625,000 of BYTS Class B ordinary shares (the "Founder Shares"). The Founder Shares included an aggregate of up to 1,125,000 shares subject to forfeiture by the Sponsor to the extent that the underwriters' over-allotment was not exercised in full or in part, so that the number of Founder Shares would collectively represent 20% of BYTS' issued and outstanding shares upon the completion of the Initial Public Offering (excluding the private placement shares). On April 7, 2021, the underwriter exercised its over-allotment option in part, and 532,687 Founder Shares were subsequently forfeited by the Sponsor. Effective as of March 27, 2023, pursuant to the terms of BYTS' Cayman constitutional documents, the Sponsor elected to convert each outstanding Class B ordinary share held by it on a one-for-one basis into Class A ordinary shares of BYTS, with immediate effect. On June 26, 2023, BYTS issued one Class B ordinary share in connection with the Domestication.

At the time of the IPO, the Sponsor agreed, subject to limited exceptions, not to transfer, assign or sell any of its Founder Shares until the earlier to occur of: (A) one year after the completion of a Business Combination; and (B) subsequent to a Business Combination, (x) if the closing price of the Class A ordinary shares equals or exceeds $12.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 120 days after a Business Combination, or (y) the date on which BYTS completes a liquidation, merger, amalgamation, share exchange, reorganization or other similar transaction that results in all of BYTS' shareholders having the right to exchange their Class A ordinary shares for cash, securities or other property.

In connection with the Business Combination, the Sponsor has entered into the Parent Support Agreement, dated as of June 27, 2023, with BYTS and Airship AI. The Parent Support Agreement provided that, after the Domestication and immediately prior to the Closing, the Sponsor will forfeit 1,000,000 Founder Shares held by it, and to make the Share Contribution to secure non-redemption agreements and/or PIPE Financing. The Parent Support Agreement also provided that 4,492,313 Founder Shares will be subject to a lock-up for a period of 180 days following the Closing.

*Related Party Loans*

On July 26, 2023, the Sponsor advanced $70,560 to BYTS, on September 8, 2023, the Sponsor advanced an additional $70,000 to BYTS, on November 1, 2023, BYTS received an additional advance from a related party of $224,500 and on November 2, 2023, the Sponsor advanced $25,159 to BYTS, for an aggregate $390,219 advanced to BYTS. These advances were repaid to the Sponsor at the time of Closing.

*Administrative Services Agreement*

BYTS entered into an agreement that provides that, commencing on effective date of the Initial Public Offering, BYTS agreed to pay the Sponsor $10,000 per month for office space, utilities, secretarial and administrative support services. During the three and nine months ended September 30, 2023 and 2022, BYTS incurred $30,000 and $90,000, respectively, of such fees. On November 30, 2022, BYTS assigned the Administrative Services Agreement, previously entered into by and between BYTS and the Sponsor to Sagara Group, LLC, which is a company controlled by Mr. Gloor. In connection with the Business Combination, the Company agreed to extend the term of the Administrative Services Agreement for an additional three months following the Closing.

*Non-Redemption Agreements*

On August 1, 2023, BYTS entered into a Non-Redemption Agreement with the Sponsor pursuant to which the Sponsor agreed to acquire from shareholders of BYTS $6 million in aggregate value of Public Shares, either in the open market or through privately negotiated transactions, at a price no higher than the redemption price per share payable to Public Shareholders who exercise Redemption Rights with respect to their Public Shares, prior to the closing date of the Business Combination, to waive its Redemption Rights and hold the Public Shares through the closing date of the Business Combination, and to abstain from voting and not vote the Public Shares in favor of or against the Business Combination. As consideration for the Non-Redemption Agreement, BYTS agreed to pay the Sponsor $0.033 per Public Share per month, which will begin accruing on the date that is three days after the date of the Non-Redemption Agreement and terminate on the earlier of the closing date of the Business Combination, the termination of the Merger Agreement, or the Outside Closing Date (as defined in the Merger Agreement). Additionally, on August 1, 2023, BYTS entered into a Non-Redemption Agreement with the Non-Redeeming Shareholder holding Public Shares, pursuant to which the Non-Redeeming Shareholder agreed not to redeem $1 million in aggregate value of Public Shares held by it on the date of the Non-Redemption Agreement in connection with the Business Combination. The Non-Redeeming Shareholder is an investor in our Sponsor and, other than indirectly through its interest in our Sponsor, the Non-Redeeming Shareholder did not receive any separate consideration for such waiver.

**Airship AI Holdings, Inc.**

*Advances to Founders and Transfer of Zeppelin Worldwide LLC and Zeppelin Taiwan, Ltd. Interests*

In 2020, Victor Huang and Derek Xu, the founders, officers and directors of Airship AI ("Airship AI Founders"), borrowed $3,000,000 ("shareholder advances") from Airship AI. As of December 31, 2022 and 2021, Airship AI was owed $1,100,000 by the Airship AI Founders. Due to the lack of certainty over the payment of interest, Airship AI will record when received. Due to the uncertainty of the timing of payment, the advances will be treated as a long-term asset. The shareholder advances bear interest at 5% and during 2022 and 2021 no interest was paid. Mr. Huang and Mr. Xu owned all the membership units of Zeppelin Worldwide, LLC and its subsidiary, Zeppelin Taiwan, Ltd. (together, "Zeppelin").

During the years ended December 31, 2022 and 2021, Zeppelin received from Airship AI an additional $1,095,000 and $590,000, respectively, in cash advances to fund operations which commenced in 2021. These advances between the companies are eliminated in the consolidated balance sheet.

When Zeppelin started, their intent was to explore the technology in-development and determine value for external customers by providing cloud based back-end products. After a period of time for Zeppelin's development it became apparent these efforts would be of value and accretive to Airship AI. In 2022, Airship AI began utilizing Zeppelin's research and development personnel to develop Airship AI's products.

On February 28, 2023, the Airship AI Founders transferred their interests in Zeppelin to Airship AI for the $1,100,000 owed by the Airship AI Founders.

*Vehicle and Condominium*

On March 30, 2021, Airship AI sold a vehicle to an Airship AI Founder for a promissory note in the amount of $80,000. The note had a simple interest rate of 4%, compounded annually, computed daily based on a 360-day year with principal and interest due in March 2023. Interest payments were due annually. The promissory note plus interest in the amount of $84,844 was repaid during the year ended December 31, 2022.

On May 5, 2021, Airship AI sold a condominium in Juanita Beach, Washington, to an Airship AI Founder for a secured promissory note in the amount of $750,000. The note had interest of 4% per annum, computed on the diminishing principal balance. Interest commenced on the closing with the first payment due on the first of each month after closing. The note was to be paid in full on or before 24 months from the date of the note. Interest payments were due annually. The promissory note plus interest in the amount of $794,917 was repaid during the year ended December 31, 2022.

*Founder Advances and Warrants*

During the year ended December 31, 2022, Mr. Huang and Mr. Xu advanced Airship AI $1,900,000 and were repaid $1,300,000, with $600,000 recorded as advances from founders as of December 31, 2022. In the nine months ended September 30, 2023, Mr. Huang and Mr. Xu advanced Airship AI $1,350,000 and were repaid $200,000, with $1,750,000 recorded as advances from founders as of September 30, 2023. The advances are non-interest bearing and Airship AI expects to pay the balance off within a one year period.

*Warrants to Purchase Common Stock*

On May 8, 2023, Airship AI issued warrants to purchase 765,000 shares of common stock to each of Victor Huang and Derek Xu. The warrants were valued at $2,136,115 based on the exercise price of $3.12, the fair market stock price of $3.33, a five year term, a volatility of 39.4% and interest of 3.41%. The warrants were recorded as stock-based compensation expense and as additional paid in capital. All warrants are fully vested as they were issued for services performed and have an aggregate intrinsic value of $321,300.

**Issuance of Bankruptcy Plan Shares**

On December 13, 2023, BYTS formed a wholly-owned subsidiary in Nevada, BYTS NV Merger Sub, Inc. ("NV Merger Sub"), for the purpose of acquiring SILLC (E) Acquisition Corp., a Nevada corporation ("SILLC"), an entity subject to a bankruptcy proceeding that has no assets, no equity owners and no liabilities, except for claims of approximately 400 holders of allowed unsecured claims and a holder of allowed administrative expenses (collectively, the "Claim Holders"). On December 15, 2023, BYTS entered into an Agreement and Plan of Merger (the "SILLC Merger Agreement") by and among BYTS, NV Merger Sub, SILLC, and the other parties thereto.

On December 21, 2023, immediately following the consummation of the Domestication and prior to the consummation of the Business Combination, and as contemplated by the SILLC Merger Agreement, NV Merger Sub merged (the "SILLC Merger") with and into SILLC, with SILLC surviving the SILLC Merger as a wholly-owned subsidiary of BYTS. SILLC became the successor and "Post Confirmation Debtor" pursuant to the bankruptcy plan. As a result of the SILLC Merger, and in accordance with the bankruptcy plan, the Company issued an aggregate of 150,000 shares of Common Stock (the "Plan Shares") to the Claim Holders as full settlement and satisfaction of their respective claims, pursuant to Section 1145 of the U.S. Bankruptcy Code. The Sponsor forfeited an equal number of shares of Common Stock.

The issuance of the Plan Shares by the Company was exempt from the registration requirements of the Securities Act. The Plan Shares will not be subject to any lock-up or other transfer restriction.

**Amended and Restated Registration Rights Agreement**

On December 21, 2023, the Company entered into an amended and restated registration rights agreement (the "Registration Rights Agreement") with the Sponsor, Victor Huang and Derek Xu (collectively, the "Holders"), pursuant to which the Company agreed to register for resale, pursuant to Rule 415 under the Securities Act, certain shares of Common Stock and Warrants that are held by the Holders from time to time. The Registration Rights Agreement amended and restated the registration rights agreement that was entered into by BYTS, the Sponsor and the other parties thereto in connection with BYTS' initial public offering. The Registration Rights Agreement will terminate on the earlier of (a) the five year anniversary of the date of the Registration Rights Agreement or (b) with respect to any Holder, on the date that such Holder no longer holds any Registrable Securities (as defined therein).

**Indemnification**

The Company's Charter and bylaws provide that the Company will indemnify its directors and officers to the fullest extent permitted by Delaware law. In addition, the Company has entered into indemnification agreements with its directors and executive officers.

**Policies and Procedures for Related Persons Transactions**

Pursuant to its Audit Committee charter, the Audit Committee will have the responsibility to review related party transactions. A "related person transaction" is a transaction, arrangement or relationship in which the post-combination company or any of its subsidiaries was, is or will be a participant, the amount of which involved exceeds $120,000 (or, for so long as we remain a "smaller reporting company" the lesser of (i) $120,000 and (ii) 1% of our average total assets of the two completed fiscal years), and in which any related person had, has or will have a direct or indirect material interest. A "related person" means:

- any person who is, or at any time during the applicable period was, one of the Company's executive officers or directors;
- any person who is known by the post-combination company to be the beneficial owner of more than 5% of the Company voting stock;
- any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of a director, executive officer or a beneficial owner of more than 5% of the Company's voting stock, and any person (other than a tenant or employee) sharing the household of such director, executive officer or beneficial owner of more than 5% of the Company's voting stock; and
- any firm, corporation or other entity in which any of the foregoing persons is a partner or principal, or in a similar position, or in which such person has a 10% or greater beneficial ownership interest.

**Director Independence**

Nasdaq listing standards require that a majority of the Company's board of directors be independent. For a description of the director independence, see "*Directors and Executive Officers*" for additional information.

## DESCRIPTION OF OUR SECURITIES

The following summary sets forth the material terms of the Company's securities. The following summary is not intended to be a complete summary of the rights and preferences of such securities and is qualified by reference to the Charter and our Bylaws. You are encouraged to read the Delaware General Corporation Law, the Charter and Bylaws in their entirety for a complete description of the rights and preferences of the Company's securities.

### Authorized and Outstanding Stock

We are a Delaware company and our affairs are governed by its certificate of incorporation, its bylaws and the Delaware General Corporation Law, which we refer to as the "DGCL" or "Delaware Law" below, and the common law of the State of Delaware. The Charter authorizes the issuance of 205,000,000 shares, consisting of 200,000,000 shares of Common Stock 5,000,000 shares of preferred stock, par value $0.0001 per share ("Preferred Stock").

### Common Stock

As of the date of this prospectus, there were 22,812,048 shares of Common Stock outstanding.

*Voting rights.* Each holder of Common Stock is entitled to one vote for each share of Common Stock held of record by such holder on all matters on which stockholders generally are entitled to vote. The holders of Common Stock do not have cumulative voting rights in the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all stockholders present in person or represented by proxy, voting together as a single class.

*Dividend Rights.* Subject to preferences that may be applicable to any outstanding Preferred Stock, the holders of shares of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board out of funds legally available for such purposes.

*Liquidation Rights.* In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company's affairs, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of the Company's debts and other liabilities, subject to prior distribution rights of Preferred Stock or any class or series of stock having a preference over the Common Stock, then outstanding, if any.

*Other rights.* The holders of Common Stock have no pre-emptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. The rights, preferences and privileges of holders of the Common Stock will be subject to those of the holders of any shares of the Preferred Stock that the Company may issue in the future.

### Preferred Stock

There are no shares of Preferred Stock issued or outstanding. The Charter authorizes the Board to establish one or more series of Preferred Stock. Unless required by law or any stock exchange, the authorized shares of Preferred Stock will be available for issuance without further action by the holders of Common Stock. The Board has the discretion to determine the powers, preferences and relative, participating, optional and other special rights, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of Preferred Stock. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders. Additionally, the issuance of Preferred Stock may adversely affect the holders of Common Stock by restricting dividends on the Common Stock, diluting the voting power of the Common Stock or subordinating the liquidation rights of the Common Stock. As a result of these or other factors, the issuance of Preferred Stock could have an adverse impact on the market price of the Common Stock, restricting dividends on the Company's capital stock, diluting the voting power of Common Stock, impairing the liquidation rights of the Company's capital stock, or delaying or preventing a change in control of the Company. At present, there are no plans to issue any Preferred Stock.

### Warrants

***Public Warrants***

Each whole Public Warrant will entitle the registered holder to purchase one share of Common Stock at a price of $11.50 per share, subject to adjustment as discussed below, at any time commencing 30 days after the Closing, provided that the Company has an effective registration statement under the Securities Act covering the shares of Common Stock issuable upon exercise of the Public Warrants and a current prospectus relating to them is available (or the Company permits holders to exercise their Public Warrants on a cashless basis under the circumstances specified in the Warrant Agreement) and such shares of Common Stock are registered, qualified or exempt from registration under the securities, or blue sky, laws of the state of residence of the holder. Pursuant to the Warrant Agreement, a warrant holder may exercise its Public Warrants only for a whole number of shares of Common Stock. This means only a whole Public Warrants may be exercised at a given time by a warrant holder. The Public Warrants will expire five years after the Closing, at 5:00 p.m., New York City time, or earlier upon redemption or liquidation.

The Company will not be obligated to deliver any shares of Common Stock pursuant to the exercise of a Public Warrant and will have no obligation to settle such warrant exercise unless a registration statement under the Securities Act with respect to the shares of Common Stock underlying the Public Warrants is then effective and a prospectus relating thereto is current, subject to our satisfying our obligations described below with respect to registration. No Public Warrants will be exercisable and the Company will not be obligated to issue a share of Common Stock upon exercise of a Public Warrant unless the Common Stock issuable upon such warrant exercise has been registered, qualified or deemed to be exempt under the securities laws of the state of residence of the registered holder of the warrants. In the event that the conditions in the two immediately preceding sentences are not satisfied with respect to a Public Warrant, the holder of such Public Warrant will not be entitled to exercise such Public Warrant and such Public Warrant may have no value and expire worthless. In no event will the Company be required to net cash settle any Public Warrant.

The Company is registering the Common Stock issuable upon exercise of the Public Warrants in the registration statement of which this prospectus forms a part. In order to comply with the requirements of Section 10(a)(3) of the Securities Act following the Closing, under the terms of the Warrant Agreement, the Company has agreed that, as soon as practicable, but in no event later than 15 business days, after the Closing, the Company will use its best efforts to file with the SEC a post-effective amendment or a new registration statement covering the registration under the Securities Act of the Common Stock issuable upon exercise of the Public Warrants and thereafter the Company will use its best efforts to cause the same to become effective and to maintain the effectiveness of such post-effective amendment or registration statement, and a current prospectus relating thereto, until the expiration or redemption of the Public Warrants in accordance with the provisions of the Warrant Agreement. If such post-effective amendment or registration statement covering the Common Stock issuable upon exercise of the Public Warrants is not effective by the sixtieth ($60^{th}$) business day after the Closing, warrant holders may, until such time as there is an effective post-effective amendment or registration statement and during any period when the Company will have failed to maintain an effective registration statement, exercise Public Warrants on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act or another exemption. Notwithstanding the above, if the Common Stock is at the time of any exercise of a Public Warrant not listed on a national securities exchange such that it satisfies the definition of a "covered security" under Section 18(b)(1) of the Securities Act, the Company may, at its option, require holders of Public Warrants who exercise their warrants to do so on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act and, in the event the Company so elects, the Company will not be required to file or maintain in effect a registration statement, and in the event the Company does not so elect, the Company will use its best efforts to register or qualify the shares under applicable blue sky laws to the extent an exemption is not available. In such event, each holder would pay the exercise price by surrendering the Public Warrants for that number of shares of Common Stock equal to the lesser of (A) the quotient obtained by dividing (x) the product of the number of shares of Common Stock underlying the Public Warrants, multiplied by the excess of the "fair market value" (as defined below) over the exercise price of the Public Warrants by (y) the fair market value and (B) 0.361. The "fair market value" as used in this paragraph shall mean the average reported closing price of the Common Stock for the 10 trading days ending on the trading day prior to the date on which the notice of exercise is received by the warrant agent.

*Redemption of Public Warrants when the price per share of Common Stock equals or exceeds $18.00*

Once the Public Warrants become exercisable, the Company may redeem the outstanding Public Warrants:

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon not less than 30 days' prior written notice of redemption (the "30-day redemption period") to each warrant holder; and
- if, and only if, the closing price of the shares of Common Stock equals or exceeds $18.00 per share (as adjusted for adjustments to the number of shares issuable upon exercise or the exercise price of a Public Warrant as described under the heading *"— Warrants — Public Warrants — Anti-Dilution Adjustments*") for any 20 trading days within a 30-trading day period ending three business days before we send to the notice of redemption to the warrant holders (which we refer to as the "Reference Value").

The Company will not redeem the Public Warrants as described above unless a registration statement under the Securities Act covering the issuance of the Common Stock issuable upon exercise of the Public Warrants is then effective and a current prospectus relating to those shares of Common Stock is available throughout the 30-day redemption period. If and when the Public Warrants become redeemable, the Company may exercise its redemption right even if the Company is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

We have established the last of the redemption criterion discussed above to prevent a redemption call unless there is at the time of the call a significant premium to the warrant exercise price. If the foregoing conditions are satisfied and we issue a notice of redemption of the Public Warrants, each warrant holder will be entitled to exercise his, her or its Public Warrant prior to the scheduled redemption date. However, the price of the Common Stock may fall below the $18.00 redemption trigger price (as adjusted for adjustments to the number of shares issuable upon exercise or the exercise price of a Public Warrant described under the heading "— *Anti-dilution Adjustments*") as well as the $11.50 warrant exercise price after the redemption notice is issued.

*Redemption of Public Warrants when the price per share of Common Stock equals or exceeds $10.00*

Once the Public Warrants become exercisable, the Company may redeem the outstanding warrants:

- in whole and not in part;
- at a price of $0.10 per warrant;
- upon not less than 30 days' prior written notice of redemption, provided that holders will be able to exercise their Public Warrants on a cashless basis prior to redemption and receive that number of shares determined by reference to the table below, based on the redemption date and the "fair market value" (as defined below) of Common Stock except as otherwise described below;
- if, and only if, the Reference Value equals or exceeds $10.00 per Public Share (as adjusted for adjustments to the number of shares issuable upon exercise) or the exercise price of a warrant as described under the heading "— *Anti-dilution Adjustments*"; and
- if the Reference Value is less than $18.00 per share, the Private Warrants must also be concurrently called for redemption on the same terms as the outstanding Public Warrants, as described above.

Beginning on the date the notice of redemption is given until the Public Warrants are redeemed or exercised, holders may elect to exercise their Public Warrants on a cashless basis. The numbers in the table below represent the number of shares of Common Stock that a warrant holder will receive upon such cashless exercise in connection with a redemption by us pursuant to this redemption feature, based on the "fair market value" of Common Stock on the corresponding redemption date (assuming holders elect to exercise their Public Warrants and such warrants are not redeemed for $0.10 per warrant), determined for these purposes based on the volume weighted average price of the Common Stock during the 10 trading days immediately following the date on which the notice of redemption is sent to the holders of warrants, and the number of months that the corresponding redemption date precedes the expiration date of the warrants, each as set forth in the table below. the Company will provide warrant holders with the final fair market value no later than one business day after the 10-trading day period described above ends.

The share prices set forth in the column headings of the table below will be adjusted as of any date on which the number of shares issuable upon exercise of a Public Warrant or the exercise price of a Public Warrant is adjusted as set forth under the heading "— *Anti-dilution Adjustments*" below. If the number of shares issuable upon exercise of Public Warrants is adjusted, the adjusted share prices in the column headings will equal the share prices immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the number of shares deliverable upon exercise of a Public Warrant immediately prior to such adjustment and the denominator of which is the number of shares deliverable upon exercise of a Public Warrant as so adjusted. The number of shares in the table below shall be adjusted in the same manner and at the same time as the number of shares issuable upon exercise of a Public Warrant. If the exercise price of a warrant is adjusted, (a) in the case of an adjustment pursuant to the fifth paragraph under the heading "— *Anti-dilution Adjustments*" below, the adjusted share prices in the column headings will equal the unadjusted share price multiplied by a fraction, the numerator of which is the higher of the Market Value and the Newly Issued Price as set forth under the heading "— *Anti-dilution Adjustments*" and the denominator of which is $10.00 and (b) in the case of an adjustment pursuant to the second paragraph under the heading "— *Anti-dilution Adjustments*" below, the adjusted share prices in the column headings will equal the unadjusted share price less the decrease in the exercise price of a warrant pursuant to such exercise price adjustment.

| Redemption Date (period to expiration of warrants) | Fair Market Value of Common Stock | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | ≤10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.00 | 17.00 | ≥18.00 |
| 60 months | 0.261 | 0.281 | 0.297 | 0.311 | 0.324 | 0.337 | 0.348 | 0.358 | 0.361 |
| 57 months | 0.257 | 0.277 | 0.294 | 0.310 | 0.324 | 0.337 | 0.348 | 0.358 | 0.361 |
| 54 months | 0.252 | 0.272 | 0.291 | 0.307 | 0.322 | 0.335 | 0.347 | 0.357 | 0.361 |
| 51 months | 0.246 | 0.268 | 0.287 | 0.304 | 0.320 | 0.333 | 0.346 | 0.357 | 0.361 |
| 48 months | 0.241 | 0.263 | 0.283 | 0.301 | 0.317 | 0.332 | 0.344 | 0.356 | 0.361 |
| 45 months | 0.235 | 0.258 | 0.279 | 0.298 | 0.315 | 0.330 | 0.343 | 0.356 | 0.361 |
| 42 months | 0.228 | 0.252 | 0.274 | 0.294 | 0.312 | 0.328 | 0.342 | 0.355 | 0.361 |
| 39 months | 0.221 | 0.246 | 0.269 | 0.290 | 0.309 | 0.325 | 0.340 | 0.354 | 0.361 |
| 36 months | 0.213 | 0.239 | 0.263 | 0.285 | 0.305 | 0.323 | 0.339 | 0.353 | 0.361 |
| 33 months | 0.205 | 0.232 | 0.257 | 0.280 | 0.301 | 0.320 | 0.337 | 0.352 | 0.361 |
| 30 months | 0.196 | 0.224 | 0.250 | 0.274 | 0.297 | 0.316 | 0.335 | 0.351 | 0.361 |
| 27 months | 0.185 | 0.214 | 0.242 | 0.268 | 0.291 | 0.313 | 0.332 | 0.350 | 0.361 |
| 24 months | 0.173 | 0.204 | 0.233 | 0.260 | 0.285 | 0.308 | 0.329 | 0.348 | 0.361 |
| 21 months | 0.161 | 0.193 | 0.223 | 0.252 | 0.279 | 0.304 | 0.326 | 0.347 | 0.361 |
| 18 months | 0.146 | 0.179 | 0.211 | 0.242 | 0.271 | 0.298 | 0.322 | 0.345 | 0.361 |
| 15 months | 0.130 | 0.164 | 0.197 | 0.230 | 0.262 | 0.291 | 0.317 | 0.342 | 0.361 |
| 12 months | 0.111 | 0.146 | 0.181 | 0.216 | 0.250 | 0.282 | 0.312 | 0.339 | 0.361 |
| 9 months | 0.090 | 0.125 | 0.162 | 0.199 | 0.237 | 0.272 | 0.305 | 0.336 | 0.361 |
| 6 months | 0.065 | 0.099 | 0.137 | 0.178 | 0.219 | 0.259 | 0.296 | 0.331 | 0.361 |
| 3 months | 0.034 | 0.065 | 0.104 | 0.150 | 0.197 | 0.243 | 0.286 | 0.326 | 0.361 |
| 0 months | — | — | 0.042 | 0.115 | 0.179 | 0.233 | 0.281 | 0.323 | 0.361 |

The exact fair market value and redemption date may not be set forth in the table above, in which case, if the fair market value is between two values in the table or the redemption date is between two redemption dates in the table, the number of shares of Common Stock to be issued for each Public Warrant exercised will be determined by a straight-line interpolation between the number of shares set forth for the higher and lower fair market values and the earlier and later redemption dates, as applicable, based on a 365 or 366-day year, as applicable. For example, if the volume weighted average price of Common Stock during the 10 trading days immediately following the date on which the notice of redemption is sent to the holders of the warrants is $11.00 per share, and at such time there are 57 months until the expiration of the warrants, holders may choose to, in connection with this redemption feature, exercise their warrants for 0.277 shares of Common Stock for each whole warrant. For an example where the exact fair market value and redemption date are not as set forth in the table above, if the volume weighted average price of Common Stock during the 10 trading days immediately following the date on which the notice of redemption is sent to the holders of the warrants is $13.50 per share, and at such time there are 38 months until the expiration of the warrants, holders may choose to, in connection with this redemption feature, exercise their warrants for 0.298 shares of Common Stock for each whole warrant. In no event will the Public Warrants be exercisable on a cashless basis in connection with this redemption feature for more than 0.361 shares of Common Stock per warrant (subject to adjustment). Finally, as reflected in the table above, if the Public Warrants are out of the money and about to expire, they cannot be exercised on a cashless basis in connection with a redemption by us pursuant to this redemption feature, since they will not be exercisable for any shares of Common Stock.

This redemption feature is structured to allow for all of the outstanding Public Warrants to be redeemed when the Common Stock is trading at or above $10.00 per share, which may be at a time when the trading price of the Common Stock is below the exercise price of the Public Warrants. We have established this redemption feature to provide us with the flexibility to redeem the Public Warrants without the Public Warrants having to reach the $18.00 per share threshold set forth above under "*— Redemption of Public Warrants when the price per share of Common Stock equals or exceeds $18.00*." Holders choosing to exercise their Public Warrants in connection with a redemption pursuant to this feature will, in effect, receive a number of shares for their warrants based on an option pricing model with a fixed volatility input as of the date of the prospectus. This redemption right provides us with an additional mechanism by which to redeem all of the outstanding warrants, and therefore have certainty as to our capital structure as the warrants would no longer be outstanding and would have been exercised or redeemed and we will be required to pay the applicable redemption price to warrant holders if we choose to exercise this redemption right and it will allow us to quickly proceed with a redemption of the Public Warrants if we determine it is in our best interest to do so. As such, we would redeem the Public Warrants in this manner when we believe it is in our best interest to update our capital structure to remove the warrants and pay the applicable redemption price to the warrant holders.

As stated above, we can redeem the Public Warrants when the Common Stock is trading at a price starting at $10.00, which is below the exercise price of $11.50, because it will provide certainty with respect to our capital structure and cash position while providing warrant holders with the opportunity to exercise their Public Warrants on a cashless basis for the applicable number of shares. If we choose to redeem the Public Warrants when the Common Stock is trading at a price below the exercise price of the Public Warrants, this could result in the warrant holders receiving fewer shares than they would have received if they had chosen to wait to exercise their warrants for shares of Common Stock if and when the Common Stock was trading at a price higher than the exercise price of $11.50.

No fractional shares of Common Stock will be issued upon exercise. If, upon exercise, a holder would be entitled to receive a fractional interest in a share, we will round down to the nearest whole number of the number of shares to be issued to the holder. If, at the time of redemption, the Public Warrants are exercisable for a security other than shares of Common Stock pursuant to the Warrant Agreement, the Public Warrants may be exercised for such security. At such time as the Public Warrants become exercisable for a security other than Common Stock, Airship Pubco (or the surviving company) will use its commercially reasonable efforts to register under the Securities Act the security issuable upon exercise of the warrants.

*Redemption Procedures*

In the event that the Company determines to redeem the Public Warrants when the closing price of the shares of Common Stock equals or exceeds $18.00 per share or $10.00 per share, pursuant to Section 6.1 or Section 6.2 of the Warrant Agreement, respectively, the Company will fix a date for the redemption. Notice of redemption will be mailed by first class mail, postage prepaid, by the Company not less than thirty (30) days prior to the redemption date to the registered holders of the Public Warrants to be redeemed at their last addresses as they appear on the registration books. Any notice mailed in the manner herein provided will be conclusively presumed to have been duly given whether or not the registered holder received such notice.

*Beneficial Ownership Limitations*

A holder of a Public Warrant may notify us in writing in the event it elects to be subject to a requirement that such holder will not have the right to exercise such warrant, to the extent that after giving effect to such exercise, such person (together with such person's affiliates), to the warrant agent's actual knowledge, would beneficially own in excess of 4.9% or 9.8% (as specified by the holder) of the Common Stock outstanding immediately after giving effect to such exercise.

*Anti-dilution Adjustments.* If the number of outstanding shares of Common Stock is increased by a share capitalization payable in shares of Common Stock, or by a sub-division of shares or other similar event, then, on the effective date of such share capitalization, sub-division or similar event, the number of shares of Common Stock issuable on exercise of each Public Warrant will be increased in proportion to such increase in the outstanding shares. A rights offering made to all or substantially all holders of securities entitling holders to purchase shares of Common Stock at a price less than the fair market value will be deemed a share capitalization of a number of shares equal to the product of (i) the number of shares of Common Stock actually sold in such rights offering (or issuable under any other equity securities sold in such rights offering that are convertible into or exercisable for Common Stock) and (ii) the quotient of (x) the price per share of Common Stock paid in such rights offering and (y) the fair market value. For these purposes (i) if the rights offering is for securities convertible into or exercisable for Common Stock, in determining the price payable for Common Stock, there will be taken into account any consideration received for such rights, as well as any additional amount payable upon exercise or conversion and (ii) fair market value means the volume weighted average price of Common Stock as reported during the ten (10) trading day period ending on the trading day prior to the first date on which the shares of Common Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive such rights.

In addition, if the Company, at any time while the Public Warrants are outstanding and unexpired, pay a dividend or make a distribution in cash, securities or other assets to all or substantially all of the holders of the Common Stock on account of such Common Stock (or other securities into which the Public Warrants are convertible), other than (a) as described above or (b) any cash dividends or cash distributions which, when combined on a per share basis with all other cash dividends and cash distributions paid on the Common Stock during the 365-day period ending on the date of declaration of such dividend or distribution does not exceed $0.50 (as adjusted to appropriately reflect any other adjustments and excluding cash dividends or cash distributions that resulted in an adjustment to the exercise price or to the number of shares of Common Stock issuable on exercise of each warrant) but only with respect to the amount of the aggregate cash dividends or cash distributions equal to or less than $0.50 per share, then the warrant exercise price will be decreased, effective immediately after the effective date of such event, by the amount of cash and/or the fair market value of any securities or other assets paid on each share of Common Stock in respect of such event.

If the number of outstanding shares of Common Stock is decreased by a consolidation, combination, reverse share sub-division or reclassification of Common Stock or other similar event, then, on the effective date of such consolidation, combination, reverse share sub-division, reclassification or similar event, the number of shares of Common Stock issuable on exercise of each Public Warrant will be decreased in proportion to such decrease in outstanding shares of Common Stock.

Whenever the number of shares of Common Stock purchasable upon the exercise of the Public Warrants is adjusted, as described above, the warrant exercise price will be adjusted by multiplying the warrant exercise price immediately prior to such adjustment by a fraction (x) the numerator of which will be the number of shares purchasable upon the exercise of the warrants immediately prior to such adjustment, and (y) the denominator of which will be the number of shares so purchasable immediately thereafter.

In case of any reclassification or reorganization of the outstanding shares of Common Stock (other than those described above or that solely affects the par value of such shares), or in the case of any merger or consolidation of us with or into another corporation (other than a consolidation or merger in which we are the continuing corporation and that does not result in any reclassification or reorganization of our issued and outstanding shares of Common Stock), or in the case of any sale or conveyance to another corporation or entity of the assets or other property of us as an entirety or substantially as an entirety in connection with which we are dissolved, the holders of the Public Warrants will thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the Public Warrants and in lieu of the Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of shares or other securities or property (including cash) receivable upon such reclassification, reorganization, merger or consolidation, or upon a dissolution following any such sale or transfer, that the holder of the Public Warrants would have received if such holder had exercised their Public Warrants immediately prior to such event. However, if such holders were entitled to exercise a right of election as to the kind or amount of securities, cash or other assets receivable upon such consolidation or merger, then the kind and amount of securities, cash or other assets for which each Public Warrant will become exercisable will be deemed to be the weighted average of the kind and amount received per share by such holders in such consolidation or merger that affirmatively make such election, and if a tender, exchange or redemption offer has been made to and accepted by such holders under circumstances in which, upon completion of such tender or exchange offer, the maker thereof, together with members of any group (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) of which such maker is a part, and together with any affiliate or associate of such maker (within the meaning of Rule 12b-2 under the Exchange Act) and any members of any such group of which any such affiliate or associate is a part, own beneficially (within the meaning of Rule 13d-3 under the Exchange Act) more than 50% of the issued and outstanding Common Stock, the holder of a Public Warrant will be entitled to receive the highest amount of cash, securities or other property to which such holder would actually have been entitled as a shareholder if such warrant holder had exercised the Public Warrant prior to the expiration of such tender or exchange offer, accepted such offer and all of the Common Stock held by such holder had been purchased pursuant to such tender or exchange offer, subject to adjustment (from and after the consummation of such tender or exchange offer) as nearly equivalent as possible to the adjustments provided for in the Warrant Agreement. If less than 70% of the consideration receivable by the holders of Common Stock in such a transaction is payable in the form of shares in the successor entity that is listed for trading on a national securities exchange or is quoted in an established over-the-counter market, or is to be so listed for trading or quoted immediately following such event, and if the registered holder of the warrant properly exercises the warrant within thirty days following public disclosure of such transaction, the warrant exercise price will be reduced as specified in the Warrant Agreement based on the Black-Scholes Warrant Value (as defined in the Warrant Agreement) of the warrant. The purpose of such exercise price reduction is to provide additional value to holders of the Public Warrants when an extraordinary transaction occurs during the exercise period of the Public Warrants pursuant to which the holders of the warrants otherwise do not receive the full potential value of the Public Warrants.

The Public Warrants are issued in registered form under a Warrant Agreement between Continental Stock Transfer & Trust Company, as warrant agent, and BYTS. The Warrant Agreement provides that the terms of the Public Warrants may be amended without the consent of any holder for the purpose of (i) curing any ambiguity or to correct any defective provision or mistake, including to conform the provisions of the Warrant Agreement to the description of the terms of the Public Warrants and the Warrant Agreement, (ii) adjusting the provisions relating to cash dividends on shares as contemplated by and in accordance with the Warrant Agreement or (iii) adding or changing any provisions with respect to matters or questions arising under the Warrant Agreement as the parties to the Warrant Agreement may deem necessary or desirable and that the parties deem to not adversely affect the rights of the registered holders of the Public Warrants, provided that the approval by the holders of at least 50% of the then-outstanding Public Warrants is required to make any change that adversely affects the interests of the registered holders of Public Warrants, and, solely with respect to any amendment to the terms of the Private Warrants, 50% of the then outstanding Private Warrants. You should review a copy of the Warrant Agreement, which is filed as an exhibit to the registration statement of which this prospectus is a part, for a complete description of the terms and conditions applicable to the Public Warrants.

The Public Warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price (or on a cashless basis, if applicable), by certified or official bank check payable to us, for the number of warrants being exercised. The warrant holders do not have the rights or privileges of holders of shares of Common Stock and any voting rights until they exercise their warrants and receive shares of Common Stock. After the issuance of shares of Common Stock upon exercise of the Public Warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by shareholders.

No fractional shares will be issued upon exercise of the Public Warrants. If, upon exercise of the Public Warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round down to the nearest whole number the number of shares of Common Stock to be issued to the warrant holder.

*Exclusive Forum*

The Warrant Agreement provides that, subject to applicable law, (i) any action, proceeding or claim against us arising out of or relating in any way to the warrant agreement, including under the Securities Act, will be brought and enforced in the courts of the State of New York or the United States District Court for the Southern District of New York, and (ii) that we irrevocably submit to such jurisdiction, which jurisdiction shall be the exclusive forum for any such action, proceeding or claim. We will waive any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum.

Notwithstanding the foregoing, these provisions of the Warrant Agreement will not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the federal district courts of the United States of America are the sole and exclusive forum. Any person or entity purchasing or otherwise acquiring any interest in any of our warrants shall be deemed to have notice of and to have consented to the forum provisions in our warrant agreement. If any action, the subject matter of which is within the scope the forum provisions of the Warrant Agreement, is filed in a court other than a court of the State of New York or the United States District Court for the Southern District of New York (a "foreign action") in the name of any holder of our warrants, such holder shall be deemed to have consented to: (x) the personal jurisdiction of the state and federal courts located in the State of New York in connection with any action brought in any such court to enforce the forum provisions (an "enforcement action"), and (y) having service of process made upon such warrant holder in any such enforcement action by service upon such warrant holder's counsel in the foreign action as agent for such warrant holder.

This choice-of-forum provision may limit a warrant holder's ability to bring a claim in a judicial forum that it finds favorable for disputes, which may discourage such lawsuits and result in increased costs to warrant holders to bring a lawsuit. Alternatively, if a court were to find this provision of our Warrant Agreement inapplicable or unenforceable with respect to one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could materially and adversely affect our business, financial condition and results of operations and result in a diversion of the time and resources of our management and board.

***Private Warrants***

The Private Warrants (including shares of Common Stock issuable upon exercise of such warrants) will not be transferable, assignable or salable until 30 days after the Closing (except, among other limited exceptions, to BYTS' officers and directors and other persons or entities affiliated with the Sponsor) and they will not be redeemable by the Company so long as they are held by the Sponsor, members of the Sponsor or their permitted transferees (except as set forth under "*— Warrants — Public Warrants — Redemption of Public Warrants when the price per share of Common Stock equals or exceeds $10.00*"). The Sponsor or its permitted transferees have the option to exercise the Private Warrants on a cashless basis. Except as described below, the Private Warrants have terms and provisions that are identical to those of the warrants sold as part of the Units in BYTS' IPO. If the Private Warrants are held by holders other than the Sponsor or its permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by the holders on the same basis as the warrants included in the Units sold in BYTS's IPO.

Except as described above under "— *Public Warrants — Redemption of Public Warrants when the price per share of Common Stock equals or exceeds $10.00*," if holders of the Private Warrants elect to exercise them on a cashless basis, they would pay the exercise price by surrendering his, her or its warrants for that number of shares of Common Stock equal to the quotient obtained by dividing (x) the product of the number of shares underlying the Private Warrants, multiplied by the excess of the "fair market value" of the Common Stock (as defined below) over the exercise price of the warrants by (y) the fair market value. The "fair market value" means the average reported closing price of the Common Stock for the 10 trading days ending on the third trading day prior to the date on which the notice of warrant exercise is sent to the warrant agent. The reason that we have agreed that these warrants will be exercisable on a cashless basis so long as they are held by the Sponsor or its permitted transferees is because it was not known at the time of BYTS' IPO whether the Sponsor would be affiliated with us following a business combination. If the Sponsor remains affiliated with the Company, its ability to sell the Company's securities in the open market will be significantly limited. The Company has policies in place that prohibit insiders from selling securities except during specific periods of time. Even during such periods of time when insiders will be permitted to sell the Company's securities, an insider cannot trade in the Company's securities if he or she is in possession of material non-public information. Accordingly, unlike public stockholders who could exercise their Public Warrants and sell the shares received upon such exercise freely in the open market in order to recoup the cost of such exercise, the insiders could be significantly restricted from selling such securities.

**Dividends**

We have not paid any cash dividends on Common Stock and do not intend to pay cash dividends on Common Stock in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and expansion of our business. Whether we pay cash dividends in the future will be at the discretion of the Board and will be dependent upon our financial condition, results of operations, capital requirements and any other factors that the Board decides is relevant. If we incur any indebtedness, our ability to declare dividends may be limited by restrictive covenants we may agree to in connection therewith.

**Our Transfer Agent and Warrant Agent**

The transfer agent for the Common Stock and warrant agent for the Warrants is Continental Stock Transfer & Trust Company. Its address is 1 State Street, 30th Floor, New York, New York 10004, and its telephone number is (212) 509-4000.

**Certain Anti-Takeover Provisions of the Charter, the Bylaws and Certain Provisions of Delaware Law**

The Charter, the Bylaws and the DGCL contain provisions, which are summarized in the following paragraphs, which are intended to enhance the likelihood of continuity and stability in the composition of the Board and to discourage certain types of transactions that may involve an actual or threatened acquisition of the Company. These provisions are intended to avoid costly takeover battles, reduce the Company's vulnerability to a hostile change of control or other unsolicited acquisition proposal, and enhance the ability of the Board to maximize stockholder value in connection with any unsolicited offer to acquire the Company. However, these provisions may have the effect of delaying, deterring or preventing a merger or acquisition of the Company by means of a tender offer, a proxy contest or other takeover attempt that a stockholder might consider in its best interest, including attempts that might result in a premium over the prevailing market price for the shares of Common Stock. The Charter provides that, from and after the date the Company ceases to qualify as a "controlled company" within the meaning of Nasdaq listing standards, any action required or permitted to be taken by the Company's stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing by such holders, except that any action required or permitted to be taken by holders of any series of Preferred Stock, voting separately as a series or separately as a class with one or more other such series, may be taken without a meeting, without prior notice and without a vote, to the extent expressly permitted to do so by the certificate of designation relating to one or more series of Preferred Stock, if a consent or consents, setting forth the action so taken, are signed by the holders of outstanding shares of the relevant class or series having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and are delivered to the Company in accordance with the applicable provisions of the DGCL. See also "*Risk Factors — Risks Related to our Securities — Anti-takeover provisions contained in our certificate of incorporation and bylaws could impair a takeover attempt*".

*Authorized but Unissued Capital Stock*

Delaware law does not require stockholder approval for any issuance of authorized shares. However, the listing requirements of Nasdaq, which would apply if and so long as the Common Stock remains listed on Nasdaq, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power or then outstanding number of shares of Common Stock. Additional shares that may be issued in the future may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions. One of the effects of the existence of unissued and unreserved capital stock may be to enable the Board to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise and thereby protect the continuity of management and possibly deprive stockholders of opportunities to sell their shares of Common Stock at prices higher than prevailing market prices.

*Election of Directors and Vacancies*

The Charter provides that the Board will determine the number of directors who will serve on the board. The exact number of directors will be fixed from time to time by a majority of the Board. The Board is declassified and consists of one class of directors only, and all directors will be elected annually and will be elected for one year terms expiring at the next annual meeting of the Company's stockholders. There will be no limit on the number of terms a director may serve on the Board.

In addition, the Charter provides that any vacancy on the Board, including a vacancy that results from an increase in the number of directors or a vacancy that results from the removal of a director with cause, may be filled only by a majority of the directors then in office, subject to any rights of the holders of Preferred Stock.

*Quorum*

The Bylaws provide that at any meeting of the Board, a majority of the total number of directors then in office constitutes a quorum for the transaction of business.

*No Cumulative Voting*

Under Delaware law, the right to vote cumulatively does not exist unless the certificate of incorporation expressly authorizes cumulative voting. The Charter does not authorize cumulative voting.

*Special Meetings of Stockholders*

The Charter provides that special meetings of stockholders may be called only by or at the direction of the Board, the Chairperson of the Board of Directors, the Chief Executive Officer or President, in each case, in accordance with the Charter and Bylaws.

*Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals*

The Bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the Board or a committee of the Board. For any matter to be "properly brought" before a meeting, a stockholder will have to comply with advance notice requirements and provide the Company with certain information. Generally, to be timely, a stockholder's notice must be received at the Company's principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the immediately preceding annual meeting of stockholders. The Bylaws allow the Board to adopt rules and regulations for the conduct of a meeting of the stockholders as it deems appropriate, which may have the effect of precluding the conduct of certain business at a meeting if the rules and regulations are not followed. These provisions may also defer, delay or discourage a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to influence or obtain control of the Company.

*Supermajority Provisions*

The Charter and the Bylaws provide that the Board is expressly authorized to adopt, amend or repeal, in whole or in part, the Bylaws without a stockholder vote in any matter not inconsistent with the laws of the State of Delaware or the Charter. The Company's stockholders also will have the power to adopt, amend or repeal the Bylaws by the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of stock of the Company entitled to vote generally in an election of directors, voting together as a single class, subject to any vote of the holders of any class or series of stock of the Company required by applicable law or by the Charter (including any certificate of designation in respect of any series of Preferred Stock) or the Bylaws.

The DGCL provides generally that the affirmative vote of a majority of the outstanding shares entitled to vote thereon, voting together as a single class, is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation requires a greater percentage. The Charter provides that the following provisions therein may be amended, altered, repealed or rescinded only by the affirmative vote of the holders of at least 66 and 2/3% in voting power all the then outstanding shares of the Company's stock entitled to vote thereon, voting together as a single class:

- the provision regarding the Board being authorized to establish one or more series of Preferred Stock with such powers, preferences and relative, participating, optional and other special rights, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences as the Board may determine;
- the provisions regarding removal of directors;
- the provisions regarding filling vacancies on the Board and newly created directorships;
- the provision regarding the Board being authorized to amend the Bylaws without a stockholder vote;
- the provisions regarding calling special meetings of stockholders;
- the provisions regarding stockholder nominations for the election of directors and of other business proposed to be brought by stockholders before any meeting of the stockholders;
- the provisions regarding limitation on liability and indemnification of the Company's directors and officers;
- the provisions regarding the Company electing not to be governed by Section 203 of the DGCL;
- the provisions adopting Delaware as the exclusive forum for certain stockholder litigation and adopting the federal district courts of the United States as the exclusive forum for resolving complaints asserting a cause of action under the Securities Act;
- the provisions regarding the Company renouncing its interest or expectancy in any corporate opportunity offered to any of its non-employee directors or principal stockholders and their affiliates; and
- the amendment provision requiring that the above provisions be amended only with a 66 and 2/3% supermajority vote.

These provisions may have the effect of deterring hostile takeovers or delaying or preventing changes in control of the Company or its management, such as a merger, reorganization or tender offer. These provisions are intended to enhance the likelihood of continued stability in the composition of the Board and its policies and to discourage certain types of transactions that may involve an actual or threatened acquisition of the Company. These provisions are designed to reduce the Company's vulnerability to an unsolicited acquisition proposal. The provisions are also intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for Common Stock and, as a consequence, may inhibit fluctuations in the market price of Common Stock that could result from actual or rumored takeover attempts. Such provisions may also have the effect of preventing changes in management.

*Exclusive Forum*

The Charter provides that, unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) and any appellate court thereof shall, to the fullest extent permitted by law, be the sole and exclusive forum for the following claims or causes of action under the Delaware statutory or common law: (i) any derivative action, suit or proceeding brought on behalf of the Company, (ii) any action, suit or proceeding asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or other employee of the Company to the Company or the Company's stockholders, (iii) any action, suit or proceeding against the Company or any current or former director, officer or other employee of the Company arising pursuant to any provision of the DGCL or the Charter or the Bylaws (as each may be amended from time to time), (iv) any claim or cause of action seeking to interpret, apply, enforce or determine the validity of the Charter or the Bylaws (as each may be amended from time to time, including any right, obligation, or remedy thereunder), (v) any action, suit or proceeding as to which the DGCL confers jurisdiction on the Chancery Court, or (vi) any action, suit or proceeding asserting a claim against the Company or any current or former director, officer or other employee of the Company governed by the internal affairs doctrine or otherwise related to the Company's internal affairs, in all cases to the fullest extent permitted by law and subject to the court having personal jurisdiction over the indispensable parties named as defendants. To the fullest extent permitted by law, any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the Company will be deemed to have notice of and consented to the forum provisions in the Charter. The Charter further provides that unless the Company consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States will be the exclusive forum for the resolutions of any complaint asserting a cause of action arising under the Securities Act. This provision in the Charter will not apply to any claim or action arising under the Exchange Act or any other claim for which the federal courts of the United States have exclusive jurisdiction; however, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. However, it is possible that a court could find the Company's forum selection provisions to be inapplicable or unenforceable. Although the Company believes this provision will benefit the Company by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against the Company's directors and officers.

*Conflicts of Interest*

Delaware law permits corporations to adopt provisions renouncing any interest or expectancy in certain opportunities that are presented to the corporation or its officers, directors or stockholders. The Charter, to the maximum extent permitted from time to time by Delaware law, renounces any interest or expectancy that the Company has in, or right to be offered an opportunity to participate in, specified business opportunities that are from time to time presented to a member of the Board who is not an employee of the Company or its subsidiaries, or the principal stockholders of the Company and their affiliates. The Charter does not renounce the Company's interest in any business opportunity that is expressly offered to a non-employee director solely in his or her capacity as a director or officer of the Company.

*Limitations on Liability and Indemnification of Officers and Directors*

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties, subject to certain exceptions. The Charter includes a provision that eliminates the personal liability of directors and officers for monetary damages for any breach of fiduciary duty as a director or officer, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL. The effect of these provisions is to eliminate the rights of the Company and its stockholders, through stockholders' derivative suits on the Company's behalf, to recover monetary damages from a director or officer for breach of fiduciary duty as a director or officer, including breaches resulting from grossly negligent behavior. However, exculpation does not apply to any director or officer if the director or officer has acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions or derived an improper benefit from his or her actions as a director or officer.

The limitation of liability provision in the Charter and the Bylaws may discourage stockholders from bringing a lawsuit against directors or officers for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit the Company and its stockholders. In addition, your investment may be adversely affected to the extent the Company pays the costs of settlement and damage awards against directors and officers pursuant to any indemnity agreements that may be entered into. The Company believes that this provision, liability insurance and any indemnity agreements that may be entered into are necessary to attract and retain talented and experienced directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to the Company's directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

There is currently no pending material litigation or proceeding involving any of the Company's respective directors, officers or employees for which indemnification is sought.

## MATERIAL U.S. FEDERAL INCOME TAX

## CONSIDERATIONS TO NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax considerations of the ownership, and disposition of our Common Stock acquired in this offering to "non-U.S. holders" (as defined below), but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated thereunder, administrative rulings, and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below. We have not sought, and do not intend to seek, any ruling from the U.S. Internal Revenue Service, or IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS or a court will agree with such statements and conclusions.

This summary also does not address the tax considerations arising under the laws of any non-U.S., state, or local jurisdiction, under U.S. federal gift and estate tax rules, or under any applicable tax treaty. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies, or other financial institutions;
- regulated investment companies or real estate investment trusts;
- persons subject to the alternative minimum tax or the Medicare contribution tax on net investment income;
- tax-exempt accounts, organizations, or governmental organizations;
- pension plans and tax-qualified retirement plans;
- controlled foreign corporations, passive foreign investment companies, and corporations that accumulate earnings to avoid U.S. federal income tax;
- brokers or dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than 5% (by vote or value) of our Common Stock (except to the extent specifically set forth below);
- certain former citizens or long-term residents of the United States;
- partnerships (or entities or arrangements classified as such for U.S. federal income tax purposes), other pass-through entities, and investors therein;
- persons who hold our Common Stock as a position in a hedging transaction, "straddle," "conversion transaction," or other risk reduction transaction;
- persons who hold or receive our Common Stock pursuant to the exercise of any option or otherwise as compensation;
- persons subject to special tax accounting rules as a result of any item of gross income with respect to our Common Stock being taken into account in an "applicable financial statement" as defined in Section 451(b) of the Code;

- persons who do not hold our Common Stock as a capital asset within the meaning of Section 1221 of the Code (generally, as property held for investment); or
- persons deemed to sell our Common Stock under the constructive sale provisions of the Code.

In addition, if a partnership (or other entity or arrangement classified as a partnership for U.S. federal income tax purposes) or other flow-through entity holds our Common Stock, the tax treatment of a partner in the partnership or owner of other such entity generally will depend on the status of the partner or owner and upon the activities of the partnership or other such entity. A partner in a partnership, or owner of other such entity, that will hold our Common Stock should consult his, her, or its own tax advisor regarding the tax consequences of the ownership and disposition of our Common Stock through the partnership or other such entity, as applicable.

**You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership, and disposition of our Common Stock arising under the U.S. federal gift or estate tax rules or under the laws of any state, local, non-U.S., or other taxing jurisdiction or under any applicable tax treaty.**

For purposes of this discussion, you are a "non-U.S. holder" if you are a beneficial owner of our Common Stock that, for U.S. federal income tax purposes, is not a partnership (including any entity or arrangement treated as a partnership and the equity holders therein) and is not:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof, or otherwise treated as such for U.S. federal income tax purposes;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a U.S. court and that has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (2) that has made a valid election under applicable Treasury Regulations to be treated as a "United States person" within the meaning of the Code.

***Distributions on Common Stock***

As described in the section titled "Dividend Policy," we have never declared or paid cash dividends on our Common Stock to date. However, if we make distributions on our Common Stock, those payments will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, the excess will constitute a return of capital and will first reduce your basis in our Common Stock (determined separately with respect to each share of our Common Stock), but not below zero, and then will be treated as gain from the sale of stock as described below in "*—Gain on Disposition of Common Stock*."

Subject to the discussions below on effectively connected income and in *"—Backup Withholding and Information Reporting*" and *"—Foreign Account Tax Compliance Act (FATCA)* ," any dividend paid to you generally will be subject to U.S. federal withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty between the United States and your country of residence. Under applicable Treasury Regulations, the applicable withholding agent may withhold up to 30% of the gross amount of the entire distribution even if the amount constituting a dividend, as described above, is less than the gross amount. In order to receive a reduced treaty rate, you must provide the applicable withholding agent with a properly executed IRS Form W-8BEN or W-8BEN-E or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. If you hold our Common Stock through a financial institution or other agent acting on your behalf, you generally will be required to provide appropriate documentation to the agent, which then may be required to provide certification to us or our paying agent, either directly or through other intermediaries. If you are eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. You should consult your tax advisor regarding your entitlement to benefits under any applicable tax treaty.

Dividends received by you that are treated as effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base maintained by you in the United States) are generally exempt from the 30% U.S. federal withholding tax, subject to the discussions below in "*—Backup Withholding and Information Reporting*" and "*—Foreign Account Tax Compliance Act (FATCA)*." In order to obtain this exemption, you must provide the applicable withholding agent with a properly executed IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to U.S. federal withholding tax, are taxed at the same rates applicable to U.S. persons, net of certain deductions and credits and subject to an applicable income tax treaty providing otherwise. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base maintained by you in the United States) may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty between the United States and your country of residence. You should consult your tax advisor regarding any applicable tax treaties that may provide for different rules.

***Gain on Disposition of Common Stock***

Subject to the discussions in "*—Backup Withholding and Information Reporting*" and "*—Foreign Account Tax Compliance Act (FATCA)*," you generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our Common Stock unless:

- the gain is effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment or fixed base maintained by you in the United States);
- you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
- our Common Stock constitutes a United States real property interest by reason of our status as a "United States real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding your disposition of our Common Stock or your holding period for our Common Stock, or the applicable testing period.

If you are a non-U.S. holder described in the first bullet above, you will be required to pay tax on the gain derived from the sale or other disposition of our Common Stock (net of certain deductions and credits) under regular U.S. federal income tax rates, and a corporate non-U.S. holder described in the first bullet above also may be subject to the branch profits tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be subject to tax at a rate of 30% (or such lower rate specified by an applicable income tax treaty) on the gain derived from the sale or other disposition of our Common Stock, which gain may be offset by U.S. source capital losses for the year, provided you have timely filed U.S. federal income tax returns with respect to such losses. You should consult your tax advisor regarding any applicable income tax or other treaties that may provide for different rules.

We believe that we are not currently and will not become a USRPHC for U.S. federal income tax purposes, and the remainder of this discussion so assumes. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property interests relative to the fair market value of our U.S. and worldwide real property interests plus our other business assets, there can be no assurance that we will not become a USRPHC in the future. However, even if we are or become a USRPHC, our Common Stock will not constitute a United States real property interest if our Common Stock is regularly traded on an established securities market and you hold no more than 5% of our outstanding Common Stock, directly, indirectly, or constructively, at all times during the applicable testing period. If we are a USRPHC at any time within the applicable testing period and either our Common Stock are not regularly traded on an established securities market or you hold more than 5% of our outstanding Common Stock directly, indirectly, or constructively, at any time during the applicable testing period, you will generally be taxed on any gain realized upon the sale or other disposition of our Common Stock in the same manner as gain that is effectively connected with the conduct of a U.S. trade or business, except that the branch profits tax generally will not apply. If we are a USRPHC at any time within the applicable testing period and our Common Stock is not regularly traded on an established securities market, your proceeds received on the disposition of shares will also generally be subject to withholding at a rate of 15%. You are encouraged to consult your own tax advisors regarding the possible consequences to you if we are, or were to become, a USRPHC.

***Foreign Account Tax Compliance Act (FATCA)***

Subject to the following paragraph, the Foreign Account Tax Compliance Act, Treasury Regulations issued thereunder and official IRS guidance with respect thereto, or, collectively, FATCA, generally impose a U.S. federal withholding tax of 30% on dividends on and the gross proceeds from a sale or other disposition of our Common Stock paid to a "foreign financial institution" (as specially defined under these rules), unless otherwise provided by the Treasury Secretary or such institution (i) enters into an agreement with the U.S. government to, among other things, withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding certain U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) or (ii) otherwise establishes an exemption. Subject to the following paragraph, FATCA also generally imposes a U.S. federal withholding tax of 30% on dividends on and the gross proceeds from a sale or other disposition of our Common Stock paid to a "non-financial foreign entity" (as specially defined under these rules), unless otherwise provided by the Treasury Secretary or such entity provides the withholding agent with a certification identifying the substantial direct and indirect U.S. owners of the entity, certifies that it does not have any substantial U.S. owners, or otherwise establishes an exemption. The withholding tax will apply regardless of whether the payment otherwise would be exempt from U.S. nonresident and backup withholding tax, including under the other exemptions described above. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. An intergovernmental agreement between the United States and an applicable foreign country may modify the requirements described in this section. Prospective investors should consult with their own tax advisors regarding the application of FATCA withholding to their investment in, and ownership and disposition of, our Common Stock.

The U.S. Treasury Department has issued proposed Treasury Regulations that, if finalized in their present form, would eliminate withholding under FATCA with respect to payments of gross proceeds from a sale or other disposition of our Common Stock. In the preamble to such proposed Treasury Regulations, the Treasury Secretary stated that taxpayers may generally rely on the proposed Treasury Regulations until final regulations are issued or until such proposed regulations are rescinded.

**Backup Withholding and Information Reporting**

Generally, we or the applicable agent must report annually to the IRS the amount of dividends paid to you, your name, your address and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends on or of proceeds from the disposition of our Common Stock made to you may also be subject to backup withholding (currently at a rate of 24%) and additional information reporting unless you establish an exemption, for example, by certifying your non-U.S. status on a properly completed IRS Form W-8BEN or IRS Form W-8BEN-E or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

**The preceding discussion of U.S. federal tax considerations is for general information only. It is not tax advice to investors in their particular circumstances. Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local, and non-U.S. tax considerations of purchasing, holding, and disposing of our Common Stock, including the consequences of any proposed change in applicable laws.**

## SELLING SECURITYHOLDERS

The Selling Securityholders may offer and sell, from time to time, any or all of the shares of Common Stock or Warrants being offered for resale by this prospectus, which consist of:

- an aggregate of 11,823,257 shares of Common Stock issued as merger consideration in connection with the Business Combination in exchange for shares of Airship Common Stock held by certain of the Selling Securityholders;
- an aggregate of 50,000 shares of Common Stock issued to the Sponsor as founder shares prior to the IPO that were subsequently transferred to third parties upon the closing of the Business Combination;
- an aggregate of 2,689,902 shares of Common Stock issuable upon the exercise of Converted Warrants held by certain of the Selling Securityholders;
- an aggregate of 1,758,105 shares of Common Stock issuable upon the exercise of Converted Options held by certain of the Selling Securityholders;
- an aggregate of 532,945 shares of Common Stock issued to Roth Capital Partners LLC in satisfaction of fees payable to Roth Capital Partners LLC for financial services and placement agent duties provided to Airship AI in connection with the Business Combination;
- an aggregate of 1,019,989 shares of Common Stock issuable upon the conversion of the Platinum Note held by Platinum, a Selling Securityholder; and
- an aggregate of 189,334 shares of Common Stock issuable upon the exercise of the Platinum Warrant held by Platinum, a Selling Securityholder.

In addition, this prospectus relates to the issuance of up to 16,184,612 shares of Common Stock that are issuable upon the exercise of the Public Warrants, which shares were previously registered in connection with the Business Combination.

The table below provides, as of the date of this prospectus, information regarding the beneficial ownership of our shares of Common Stock and Warrants of each Selling Securityholder, the number of shares of Common Stock and number of Warrants that may be sold by each Selling Securityholders under this prospectus and that each Selling Securityholders will beneficially own after this offering. We have based percentage ownership on 22,812,048 shares of Common Stock outstanding as of the date of this prospectus.

Because each Selling Securityholder may dispose of all, none or some portion of their securities, no estimate can be given as to the number of securities that will be beneficially owned by a Selling Securityholder upon termination of this offering. For purposes of the table below, however, we have assumed that after termination of this offering none of the securities covered by this prospectus will be beneficially owned by the Selling Securityholder and further assumed that the Selling Securityholder will not acquire beneficial ownership of any additional securities during the offering. In addition, the Selling Securityholder may have sold, transferred or otherwise disposed of, or may sell, transfer or otherwise dispose of, at any time and from time to time, our securities in transactions exempt from the registration requirements of the Securities Act after the date on which the information in the table is presented.

Unless otherwise indicated below, the address of each beneficial owner listed in the tables below is c/o Airship AI Holdings, Inc., 8210 154th Ave NE, Redmond, WA 98052.

| Name | Number Beneficially Owned Prior to Offering | Number Registered for Sale Hereby | Number Beneficially Owned After Offering | Percent Owned After Offering |
|---|---|---|---|---|
| Airship Kirkland Family LP[1] | 6,900,563 | 5,142,458 | 1,758,105 | 7.2% |
| Victor Huang[2] | 8,305,514 | 1,344,951 | 1,818,105 | 7.4% |
| Airship Redmond Family LP[3] | 8,438,905 | 8,438,905 | — | — |
| Derek Xu[4] | 9,783,856 | 1,344,951 | — | — |
| Louis Lebedin | 50,000 | 50,000 | — | — |
| Roth Capital Partners LLC[5] | 532,945 | 532,945 | — | — |
| Platinum Capital Partners Inc.[6] | 1,209,323 | 1,209,323 | — | — |

(1) Includes (i) 3,384,353 shares of Common Stock, (ii) 1,758,105 shares of Common Stock issuable upon the exercise of Converted Options, and (iii) 1,758,105 shares of Common Stock covering Converted SARs. After the offering, represents 1,758,105 shares of Common Stock covering Converted SARs. Victor Huang has voting and dispositive power over the securities held by Airship Kirkland Family LP.

(2) Includes (i) shares owned by Airship Kirkland Family LP, over which Mr. Huang has voting and dispositive power, (ii) 60,000 shares of Common Stock acquired by Mr. Huang in the open market following the Business Combination, and (iii) 1,344,951 shares of Common Stock issuable upon the exercise of Converted Warrants.

(3) Derek Xu has voting and dispositive power over the shares owned by Airship Redmond Family LP.

(4) Includes (i) shares owned by Airship Redmond Family LP, over which Mr. Xu has voting and dispositive power, and (ii) 1,344,951 shares of Common Stock issuable upon the exercise of Converted Warrants.

(5) The address of the Selling Securityholder is 888 San Clemente Drive, Newport Beach, CA 92660.

(6) Includes (i) 1,019,989 shares issuable upon the conversion of the Platinum Note and (ii) 189,334 shares issuable upon the exercise of the Platinum Warrant. The Platinum Convertible Note may not converted, and the Platinum Warrant may not be exercised, to the extent that after giving effect to such conversion and/or exercise, Platinum (together with its affiliates) would beneficially own in excess of 4.99% of the Common Stock outstanding immediately after giving effect to such conversion and/or exercise. [_____] has voting and dispositive power over the shares held by Platinum Capital Partners Inc. The address of the Selling Securityholder is 167, Doiranis str, Suite 500, Kallithea, 17673, Athens, Greece.

## PLAN OF DISTRIBUTION

The Selling Securityholders, which includes donees, pledgees, transferees or other successors-in-interest selling shares of Common Stock or interests in shares of Common Stock received after the date of this prospectus from a Selling Securityholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of Common Stock or interests in shares of Common Stock on any stock exchange, market or trading facility on which the shares of Common Stock are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The Selling Securityholders may use any one or more of the following methods when disposing of shares of Common Stock or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for their account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales effected after the date the registration statement of which this prospectus is a part is declared effective by the SEC;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the Selling Securityholders to sell a specified number of such Ordinary Shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted by applicable law.

The Selling Securityholders may, from time to time, pledge or grant a security interest in some or all of the shares of Common Stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of Common Stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of Selling Securityholders to include the pledgee, transferee or other successors in interest as Selling Securityholders under this prospectus. The Selling Securityholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of our shares of Common Stock or interests therein, the Selling Securityholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the shares of Common Stock in the course of hedging the positions they assume. The Selling Securityholders may also sell our shares of Common Stock short and deliver these securities to close out their short positions, or loan or pledge the shares of Common Stock to broker-dealers that in turn may sell these securities. The Selling Securityholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker- dealer or other financial institution of shares of Common Stock offered by this prospectus, which shares of Common Stock such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

Each of the Selling Securityholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of shares of Common Stock to be made directly or through agents. We will not receive any of the proceeds from this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants.

The Selling Securityholders and any underwriters, broker-dealers or agents that participate in the sale of the shares of Common Stock or interests therein may be "underwriters" within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling Securityholders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

In addition, a Selling Securityholders that is an entity may elect to make a pro rata in-kind distribution of securities to its members, partners or stockholders pursuant to the registration statement of which this prospectus is a part by delivering a prospectus with a plan of distribution. Such members, partners or stockholders would thereby receive freely tradeable securities pursuant to the distribution through a registration statement.

To the extent required, our shares of Common Stock to be sold, the names of the Selling Securityholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the shares of Common Stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the shares of Common Stock may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the Selling Securityholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares of Common Stock in the market and to the activities of the Selling Securityholders and their affiliates. In addition, to the extent applicable we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the Selling Securityholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The Selling Securityholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the Selling Securityholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares of Common Stock offered by this prospectus.

We have agreed with the Selling Securityholders to keep the registration statement of which this prospectus constitutes a part effective until all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or the securities have been withdrawn.

## EXPERTS

The financial statements of BYTE Acquisition Corp. as of December 31, 2022 and for the period from January 8, 2021 (inception) through December 31, 2021 appearing in this prospectus have been audited by Marcum LLP, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph relating to substantial doubt about the ability of BYTE Acquisition Corp. to continue as a going concern as described in Note 1 to the financial statements), appearing elsewhere in this prospectus, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Airship AI Holdings, Inc. as of December 31, 2022 and 2021, and for each of the two years in the period ended December 31, 2022, included in this prospectus, have been included in reliance on the report of BPM LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## LEGAL MATTERS

The validity of the securities offered by this prospectus has been passed upon for us by Loeb and Loeb LLP.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1, including exhibits, under the Securities Act of 1933, as amended, with respect to the shares of Common stock offered by this prospectus. This prospectus does not contain all of the information included in the registration statement. For further information pertaining to us and our securities, you should refer to the registration statement and our exhibits.

In addition, we file annual and current reports, and other information with the SEC. Our SEC filings are available to the public on a website maintained by the SEC located at www.sec.gov. We also maintain a website at https://airship.ai. Through our website, we make available, free of charge, annual and current reports, and other information as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information contained on, or that may be accessed through, our website is not part of, and is not incorporated into, this prospectus.

## INDEX TO FINANCIAL STATEMENTS


| | Page |
|---|---|
| **BYTE Acquisition Corp. Unaudited Financial Statements** | |
| Condensed Balance Sheets as of September 30, 2023 (Unaudited) and December 31, 2022 | F-2 |
| Condensed Statements of Operations for the three and nine months ended September 30, 2023 and 2022 (Unaudited) | F-3 |
| Condensed Statements of Changes in Shareholders' Deficit for the three and nine months ended September 30, 2023 and 2022 (Unaudited) | F-4 |
| Condensed Statements of Cash Flows for the nine months ended September 30, 2023 and 2022 (Unaudited) | F-5 |
| Notes to Unaudited Condensed Financial Statements | F-6 |

| | Page |
|---|---|
| **BYTE Acquisition Corp. Audited Financial Statements** | |
| Report of Independent Registered Public Accounting Firm (PCAOB ID Number 688) | F-23 |
| Financial Statements: | |
| Balance Sheets | F-24 |
| Statements of Operations | F-25 |
| Statements of Changes in Shareholders' Deficit | F-26 |
| Statements of Cash Flows | F-27 |
| Notes to Financial Statements | F-28 |

| | Page |
|---|---|
| **Airship AI Holdings, Inc. Unaudited Financial Statements** | |
| Consolidated Balance Sheets as of September 30, 2023 (Unaudited) and December 31, 2022 | F-42 |
| Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2023 and 2022 (Unaudited) | F-43 |
| Consolidated Statements of Changes in Stockholders' Deficit for the three and nine months ended September 30, 2023 and 2022 (Unaudited) | F-44 |
| Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022 (Unaudited) | F-45 |
| Notes to Unaudited and Condensed Consolidated Financial Statements | F-46 |

| | Page |
|---|---|
| **Airship AI Holdings, Inc. Audited Financial Statements** | |
| Independent Auditor's Report (PCAOB ID Number 207) | F-65 |
| Consolidated Balance Sheets | F-66 |
| Consolidated Statement of Operations and Comprehensive Loss | F-67 |
| Consolidated Statements of Changes in Stockholders' Deficit | F-68 |
| Consolidated Statements of Cash Flows | F-69 |
| Notes to Consolidated Financial Statements | F-70 |

**BYTE ACQUISITION CORP.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2023 (Unaudited) | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 18,752 | $ 1,054,581 |
| Prepaid expenses | 20,190 | 133,091 |
| **Total current assets** | 38,942 | 1,187,672 |
| Non-current assets: | | |
| Cash and investments held in Trust Account | 25,254,705 | 328,226,432 |
| **Total non-current assets** | 25,254,705 | 328,226,432 |
| **Total Assets** | **$ 25,293,647** | **$ 329,414,104** |
| | | |
| **Liabilities, Class A Ordinary Shares Subject to Possible Redemption and Shareholders' Deficit:** | | |
| Current liabilities: | | |
| Accounts payable | $ 184,322 | $ 83,999 |
| Accrued expenses | 2,454,277 | 349,835 |
| Advance from related party | 140,560 | — |
| Non-redemption agreement liability | 250,243 | — |
| Non-redemption agreement liability – related party | 37,657 | — |
| **Total current liabilities** | 3,067,059 | 433,834 |
| Redemption payable | 5,587,383 | — |
| Deferred underwriting commissions | 11,329,238 | 11,329,238 |
| Derivative warrant liabilities | 3,840,914 | 1,336,050 |
| **Total liabilities** | 23,824,594 | 13,099,122 |
| | | |
| **Commitments and Contingencies** | | |
| | | |
| Class A ordinary shares subject to possible redemption at $10.65 and $10.14 per share, $0.0001 par value; 1,837,593 and 32,369,251 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively | 19,567,322 | 328,126,432 |
| | | |
| **Shareholders' Deficit:** | | |
| Preference shares, $0.0001 par value; 1,000,000 shares authorized; none issued and outstanding | — | — |
| Class A ordinary shares, $0.0001 par value; 200,000,000 shares authorized; 9,122,313 and 1,030,000 shares issued and outstanding (excluding 1,837,593 and 32,369,251 shares subject to possible redemption) as of September 30, 2023 and December 31, 2022, respectively | 912 | 103 |
| Class B ordinary shares, $0.0001 par value; 20,000,000 shares authorized; 1 and 8,092,313 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively | — | 809 |
| Additional paid-in capital | — | — |
| Accumulated deficit | (18,099,181) | (11,812,362) |
| **Total shareholders' deficit** | (18,098,269) | (11,811,450) |
| **Total Liabilities, Class A Ordinary Shares Subject to Possible Redemption and Stockholders' Deficit:** | **$ 25,293,647** | **$ 329,414,104** |

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

**BYTE ACQUISITION CORP.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| General and administrative expenses | $ 766,831 | $ 238,259 | $ 3,289,510 | $ 814,975 |
| General and administrative expenses – related party | 30,000 | 30,000 | 90,000 | 90,000 |
| **Loss from operations** | **(796,831)** | **(268,259)** | **(3,379,510)** | **(904,975)** |
| Change in fair value of derivative warrant liabilities | (1,001,978) | 333,960 | (2,504,864) | 7,685,810 |
| Interest income – bank | 1,993 | — | 17,445 | — |
| Income from investments held in Trust Account | 307,275 | 1,445,135 | 3,720,218 | 1,899,910 |
| **Net (loss) income** | **$ (1,489,541)** | **$ 1,510,836** | **$ (2,146,711)** | **$ 8,680,745** |
| Weighted average shares outstanding of Class A ordinary shares subject to possible redemption | 2,317,511 | 32,369,251 | 10,591,230 | 32,369,251 |
| **Basic and diluted net (loss) income per share, Class A ordinary shares subject to possible redemption** | **$ (0.13)** | **$ 0.04** | **$ (0.11)** | **$ 0.21** |
| Weighted average shares outstanding of non-redeemable Class A ordinary shares and Class B ordinary share | 9,122,314 | 9,122,313 | 9,122,313 | 9,122,313 |
| **Basic and diluted net (loss) income per share, non-redeemable Class A ordinary shares and Class B ordinary share** | **$ (0.13)** | **$ 0.04** | **$ (0.11)** | **$ 0.21** |

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

**BYTE ACQUISITION CORP.**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGE IN SHAREHOLDERS' DEFICIT**
**(UNAUDITED)**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023**

| | Ordinary Shares | | | | Additional | | Total |
|---|---|---|---|---|---|---|---|
| | Class A | | Class B | | Paid-in | Accumulated | Shareholders' |
| | Shares | Amount | Shares | Amount | Capital | Deficit | Deficit |
| **Balance – December 31, 2022** | **1,030,000** | **$ 103** | **8,092,313** | **$ 809** | **$ —** | **$ (11,812,362)** | **$ (11,811,450)** |
| Conversion of Class B ordinary shares to Class A ordinary shares | 8,092,313 | 809 | (8,092,313) | (809) | — | — | — |
| Net income | — | — | — | — | — | 1,163,141 | 1,163,141 |
| Shareholder non-redemption agreement (Note 6) | | | | | | (396,000) | (396,000) |
| Accretion for Class A ordinary shares to redemption amount | — | — | — | — | — | (2,998,349) | (2,998,349) |
| **Balance – March 31, 2023** | **9,122,313** | **912** | **—** | **—** | **—** | **(14,043,570)** | **(14,042,658)** |
| Issuance of Class B ordinary shares | — | — | 1 | — | 10 | — | 10 |
| Net loss | — | — | — | — | — | (1,820,311) | (1,820,311) |
| Accretion for Class A ordinary shares to redemption amount | — | — | — | — | (10) | (414,584) | (414,594) |
| **Balance – June 30, 2023** | **9,122,313** | **912** | **1** | **—** | **—** | **(16,278,465)** | **(16,277,553)** |
| Net loss | — | — | — | — | — | (1,489,541) | (1,489,541) |
| Change in shareholder non-redemption agreement liability | — | — | — | — | — | 13,757 | 13,757 |
| Related party non-redemption agreement liability | — | — | — | — | — | (37,657) | (37,657) |
| Accretion for Class A ordinary shares to redemption amount | — | — | — | — | — | (307,275) | (307,275) |
| **Balance – September 30, 2023** | **9,122,313** | **$ 912** | **1** | **$ —** | **$ —** | **$ (18,099,181)** | **$ (18,098,269)** |

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022**

| | Ordinary Shares | | | | Additional | | Total |
|---|---|---|---|---|---|---|---|
| | Class A | | Class B | | Paid-in | Accumulated | Shareholders' |
| | Shares | Amount | Shares | Amount | Capital | Deficit | Deficit |
| **Balance – December 31, 2021** | **1,030,000** | **$ 103** | **8,092,313** | **$ 809** | **$ —** | **$ (18,009,404)** | **$ (18,008,492)** |
| Net income | — | — | — | — | — | 5,255,353 | 5,255,353 |
| **Balance – March 31, 2022** | **1,030,000** | **103** | **8,092,313** | **809** | **—** | **(12,754,051)** | **(12,753,139)** |
| Net income | — | — | — | — | — | 1,914,556 | 1,914,556 |
| Remeasurement of redemption value of Class A ordinary shares subject to redemption | — | — | — | — | — | (379,243) | (379,243) |
| **Balance – June 30, 2022** | **1,030,000** | **103** | **8,092,313** | **809** | **—** | **(11,218,738)** | **(11,217,826)** |
| Net income | — | — | — | — | — | 1,510,836 | 1,510,836 |
| Remeasurement of redemption value of Class A ordinary shares subject to redemption | — | — | — | — | — | (1,445,136) | (1,445,136) |
| **Balance – September 30, 2022** | **1,030,000** | **$ 103** | **8,092,313** | **$ 809** | **$ —** | **$ (11,153,038)** | **$ (11,152,126)** |

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

**BYTE ACQUISITION CORP.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| **Cash Flows from Operating Activities:** | | |
| Net (loss) income | $ (2,146,711) | $ 8,680,745 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Change in fair value of derivative warrant liabilities | 2,504,864 | (7,685,810) |
| Income from investments held in Trust Account | (3,720,218) | (1,899,910) |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | 112,901 | 411,750 |
| Accounts payable | 100,323 | (20,974) |
| Accrued expenses | 2,104,442 | 42,343 |
| **Net cash used in operating activities** | **(1,044,399)** | **(471,856)** |
| | | |
| **Cash Flows from Investing Activities:** | | |
| Cash withdrawn from Trust Account in connection with redemption | 306,691,945 | — |
| **Net cash provided by investing activities** | **306,691,945** | **—** |
| | | |
| **Cash Flows from Financing Activities:** | | |
| Non-redemption agreement liability | (132,000) | — |
| Issuance of Class B ordinary share | 10 | — |
| Advances from related party | 140,560 | — |
| Redemption of common stock | (306,691,945) | — |
| **Net cash used in financing activities** | **(306,683,375)** | **—** |
| | | |
| **Net change in cash** | **(1,035,829)** | **(471,856)** |
| Cash – beginning of the period | 1,054,581 | 1,663,104 |
| **Cash – end of the period** | **$ 18,752** | **$ 1,191,248** |
| **Supplemental disclosure of noncash investing and financing activities:** | | |
| Remeasurement on Class A ordinary shares subject to possible redemption | $ 3,720,218 | $ 1,824,379 |
| Shareholder non-redemption agreement liability | $ 382,243 | $ — |
| Related party non-redemption agreement liability | $ 37,657 | $ — |
| Redemption payable | $ 5,587,383 | $ — |

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

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — Description of Organization and Business Operations**

BYTE Acquisition Corp. ("Byte") is a blank check company incorporated as a Cayman Islands exempted company on January 8, 2021. Byte was formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses ("initial business combination"). Byte is an early stage and emerging growth company and, as such, Byte is subject to all of the risks associated with early stage and emerging growth companies.

Byte has one wholly owned subsidiary, BYTE Merger Sub, Inc., a Washington corporation, which was formed on June 9, 2023. Byte and its subsidiary are collectively referred to as "the Company".

On June 27, 2023, the Company entered into a merger agreement with Airship AI Holdings, Inc., a Washington corporation, for the purpose to consummate a business combination (the "Business Combination"). On September 22, 2023, the Company, Airship AI Holdings, Inc., and BYTE Merger Sub, Inc entered into an amendment to the merger agreement to extend the last date for the Company to consummate an initial business combination from December 26, 2023 to the latest of (a) September 25, 2023, (b) if the Extension Proposal (as defined in the Merger Agreement) is approved, March 26, 2024 and (C) if one or more extensions to a date following March 26, 2024 with Airship AI Holdings, Inc.'s approval is obtained at the election of the Company, with the Company's shareholder vote, in accordance with the Company's Amended and Restated Memorandum and Articles of Association, the last date for the Company to consummate the Business Combination pursuant to such extensions (see Note 6.).

As of September 30, 2023, the Company had not yet commenced operations. All activity for the period from January 8, 2021 (inception) through September 30, 2023 relates to the Company's formation and the initial public offering (the "Initial Public Offering") and since the closing of the Initial Public Offering, the search for a prospective initial business combination. The Company will not generate any operating revenues until after the completion of an initial business combination, at the earliest. The Company generates non-operating income in the form of interest and other income on investments of the proceeds derived from the Initial Public Offering. The Company has selected December 31 as its fiscal year end.

The Company's sponsor is Byte Holdings LP, a Cayman Islands exempted limited partnership (the "Sponsor"). The registration statement for the Company's Initial Public Offering was declared effective on March 17, 2021. On March 23, 2021, the Company consummated its Initial Public Offering of 30,000,000 units (the "Units" and, with respect to the Class A ordinary shares included in the Units, the "Public Shares"), at $10.00 per Unit, generating gross proceeds of $300.0 million, and incurring underwriting fees and other offering costs of approximately $17.2 million, inclusive of approximately $10.5 million in deferred underwriting commissions (see Note 6). The underwriter was granted a 45-day option from the date of the final prospectus relating to the Initial Public Offering to purchase up to 4,500,000 additional Units to cover over-allotments, if any, at $10.00 per Unit. On April 7, 2021, the underwriter exercised the over-allotment option in part and purchased an additional 2,369,251 Units (the "Over-Allotment Units"), generating gross proceeds of $23,692,510.

Simultaneously with the closing of the Initial Public Offering, the Company consummated the private placement ("Private Placement") of 1,030,000 Units (the "Private Placement Units") at a price of $10.00 per Private Placement Unit, generating total gross proceeds of $10.3 million (see Note 4).

Upon the closing of the Initial Public Offering, sale of the Over-Allotment Units and closing of the Private Placement, $323.7 million ($10.00 per Unit) of the net proceeds of the Initial Public Offering, the Over-Allotment Units and certain of the proceeds of the Private Placement was placed in a trust account ("Trust Account") with Continental Stock Transfer & Trust Company acting as trustee and invested in United States "government securities" within the meaning of Section 2(a)(16) of the Investment Company Act having a maturity of 185 days or less or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act which invest only in direct U.S. government treasury obligations, as determined by Byte, until the earlier of: (i) the completion of an initial business combination and (ii) the distribution of the Trust Account to Byte's shareholders. To mitigate the risk of Byte being deemed to have been operating as an unregistered investment company (including under the subjective test of Section 3(a)(1)(A) of the Investment Company Act), on February 10, 2023, Byte instructed Continental Stock Transfer & Trust Company to liquidate the U.S. government treasury obligations or money market funds held in the

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — Description of Organization and Business Operations** (cont.)

Trust Account and thereafter to hold all funds in the Trust Account in an interest-bearing demand deposit account until the earlier of: (i) the completion of an initial business combination and (ii) the distribution of the funds in the Trust Account to the Company's shareholders, as described below.

The Company's management has broad discretion with respect to the specific application of the net proceeds of the Initial Public Offering and the sale of the Private Placement Units, although substantially all of the net proceeds are intended to be applied generally toward completing an initial business combination. The Company must complete its initial business combination with one or more target businesses that together have a fair market value equal to at least 80% of the net assets held in the Trust Account (excluding the amount of any deferred underwriting commissions held in the Trust Account) at the time of the agreement to enter into an initial business combination. The Company will only complete an initial business combination if the post-business combination company owns or acquires 50% or more of the issued and outstanding voting securities of the target or otherwise acquires a controlling interest in the target business sufficient for it not to be required to register as an investment company under the Investment Company Act. There is no assurance that the Company will be able to successfully effect an initial business combination.

The Company will provide holders of the Public Shares (the "Public Shareholders") with the opportunity to redeem all or a portion of their Public Shares upon the completion of an initial business combination either (i) in connection with a shareholder meeting called to approve the initial business combination or (ii) by means of a tender offer. The decision as to whether the Company will seek shareholder approval of an initial business combination or conduct a tender offer will be made by the Company. The Public Shareholders will be entitled to redeem their Public Shares for a pro rata portion of the amount held in the Trust Account (initially anticipated to be $10.00 per share), calculated as of two business days prior to the completion of an initial business combination, including any pro rata interest earned on the funds held in the Trust Account and not previously released to the Company to pay its tax obligations. There will be no redemption rights upon the completion of an initial business combination with respect to the Company's warrants. The Class A ordinary shares were recorded at redemption value and classified as temporary equity in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 480 "Distinguishing Liabilities from Equity" ("ASC 480").

If the Company seeks shareholder approval, the Company will complete an initial business combination only if it receives an ordinary resolution under Cayman Islands law approving the initial business combination, which requires the affirmative vote of a majority of the shareholders who vote at a general meeting of the Company. If a shareholder vote is not required under applicable law or stock exchange listing requirements and the Company does not decide to hold a shareholder vote for business or other reasons, the Company will, pursuant to its Amended and Restated Memorandum and Articles of Association, conduct the redemptions pursuant to the tender offer rules of the Securities and Exchange Commission ("SEC"), and file tender offer documents containing substantially the same information as would be included in a proxy statement with the SEC prior to completing an initial business combination. If the Company seeks shareholder approval in connection with an initial business combination, the Sponsor agreed to vote its Founder Shares (as defined in Note 5), the Class A ordinary shares underlying the Private Placement Units (the "Private Placement Shares") and any Public Shares purchased in or after the Initial Public Offering in favor of approving an initial business combination and to waive its redemption rights with respect to any such shares in connection with a shareholder vote to approve an initial business combination. Each Public Shareholder may elect to redeem its Public Shares, without voting, and if they do vote, irrespective of whether they vote for or against a proposed initial business combination.

Notwithstanding the foregoing, if the Company seeks shareholder approval of an initial business combination and it does not conduct redemptions pursuant to the tender offer rules, the Company's Amended and Restated Memorandum and Articles of Association provides that a Public Shareholder, together with any affiliate of such shareholder or any other person with whom such shareholder is acting in concert or as a "group" (as defined under Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), will be restricted from redeeming its shares with respect to more than an aggregate of 15% of the Public Shares without the Company's prior written consent.

The Sponsor agreed (a) to waive its redemption rights with respect to any Founder Shares and Public Shares held by it in connection with the completion of an initial business combination and (b) not to propose an amendment to the Amended and Restated Memorandum and Articles of Association (i) to modify the substance or timing of the

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — Description of Organization and Business Operations** (cont.)

Company's obligation to redeem 100% of the Public Shares if the Company does not complete an initial business combination within the Combination Period (as defined below) or (ii) with respect to any other provision relating to shareholders' rights or pre-initial business combination activity, unless the Company provides the Public Shareholders with the opportunity to redeem their Public Shares in conjunction with any such amendment and (iii) to waive its rights to liquidating distributions from the Trust Account with respect to the Founder Shares if the Company fails to complete an initial business combination. However, if the Sponsor acquires Public Shares in or after the Initial Public Offering, such Public Shares will be entitled to liquidating distributions from the Trust Account if the Company fails to complete an initial business combination.

The Company initially had until March 23, 2023 to consummate an initial business combination. On March 16, 2023, the Company held an extraordinary general meeting (the "March EGM"). In the March EGM, the Company's shareholders approved amendments to the Company's Amended and Restated Memorandum and Articles of Association to extend the date by which the Company must complete an initial business combination from March 23, 2023 to September 25, 2023 and to provide for the right of a holder of the Company's Class B ordinary shares to convert into Class A ordinary shares on a one-for-one basis prior to the closing of an initial business combination. In connection with the March EGM, shareholders holding an aggregate of 30,006,034 of the Company's Class A ordinary shares exercised their right to redeem their shares for approximately $10.20 per share, or an aggregate total of $306,106,987, of the funds held in the Company's Trust Account, leaving approximately $24.1 million in the Company's Trust Account after such redemption. Subsequently, it was determined that the redemption value per share was approximately $10.22 per share, or an aggregate total of $306,691,945, of the funds held in the Company's Trust Account resulting in a secondary distribution to the redeeming shareholders of approximately $0.02 per share, or an aggregate total of $584,958.

On September 22, 2023, the Company held an extraordinary general meeting of shareholders in lieu of annual general meeting (the "September EGM"). At the September EGM, the Company's shareholders approved amendments to the Company's Amended and Restated Memorandum and Articles of Association to (i) extend the date by which the Company must complete a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination involving the Company and one or more businesses from September 25, 2023 to December 26, 2023 and to allow the Company, without another shareholder vote, by resolution of the Company's board of directors, to elect to further extend by three months, until March 25, 2024, unless the closing of a business combination should have occurred prior thereto (ii) eliminate (a) the limitation that the Company may not redeem public shares in an amount that would cause the Company's net tangible assets to be less than $5,000,001 and (b) the limitation that the Company shall not consummate an initial business combination unless the Company has net tangible assets of at least $5,000,001 immediately prior to, or upon consummation of, or any greater net tangible asset or cash requirement that may be contained in the agreement relating to, such initial business combination and (iii) re-elect Louis Lebedin as a Class I director of the Company's board of directors until the general meeting of the Company to be held in 2026 or until his successor is appointed and qualified. In connection with the September EGM, shareholders holding an aggregate of 525,624 of the Company's Class A ordinary shares exercised their right to redeem their shares for approximately $10.63 per share of the funds held in the Company's Trust Account.

The Company will have until December 26, 2023 to complete an initial business combination or the Company may, without shareholder approval, elect to further extend such deadline by three months until March 25, 2024 (such period, as it may be extended, "Combination Period"). If the Company is unable to complete an initial business combination within the Combination Period, the Company will (i) cease all operations except for the purpose of winding up, (ii) as promptly as reasonably possible but no more than 10 business days thereafter, redeem 100% of the outstanding Public Shares, at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including interest earned (less taxes payable and up to $100,000 of interest to pay dissolution expenses), divided by the number of then outstanding Public Shares, which redemption will completely extinguish Public Shareholders' rights as shareholders (including the right to receive further liquidation distributions, if any), and (iii) as promptly as reasonably possible following such redemption, subject to the approval of the remaining shareholders and the Company's board of directors, dissolve and liquidate, subject in each case to its obligations under Cayman Islands law to provide for claims of creditors and the requirements of other applicable law.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — Description of Organization and Business Operations** (cont.)

The underwriters agreed to waive their rights to their deferred underwriting commission (see Note 6) held in the Trust Account in the event the Company completes the Business Combination with Airship AI Holdings, Inc. or in the event the Company does not complete an initial business combination within the Combination Period and, in either event, such amounts will be included with the funds held in the Trust Account that will be available to fund the redemption of the Public Shares.

The Sponsor agreed to indemnify and hold harmless the Company, if and to the extent any claims by a third party for services rendered or products sold to the Company, or by a prospective target business with which the Company has entered into a written letter of intent, confidentiality or other similar agreement or business combination agreement, reduce the amount of funds in the Trust Account to below the lesser of (1) $10.00 per Public Share and (2) the actual amount per Public Share held in the Trust Account as of the date of the liquidation of the Trust Account, if less than $10.00 per Public Share due to reductions in the value of trust assets, less taxes payable. This liability will not apply to any claims by a third party or prospective target business who executed a waiver of any and all rights to the monies held in the Trust Account nor will it apply to any claims under the Company's indemnity of the underwriters of the Initial Public Offering against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). Moreover, in the event that an executed waiver is deemed to be unenforceable against a third party, the Sponsor will not be responsible to the extent of any liability for such third-party claims. The Company will seek to reduce the possibility that the Sponsor will have to indemnify the Trust Account due to claims of creditors by endeavoring to have all vendors, service providers (other than the Company's independent public accountants), prospective target businesses or other entities with which the Company does business, execute agreements with the Company waiving any right, title, interest or claim of any kind in or to monies held in the Trust Account.

*Liquidity, Capital Resources and Going Concern Consideration*

As of September 30, 2023, the Company had approximately $19,000 in its operating bank account and working capital deficit of approximately $3.0 million.

The Company's liquidity needs through the consummation of the Initial Public Offering were satisfied through the payment of $25,000 from the Sponsor to cover certain offering costs on behalf of the Company in exchange for the issuance of the Founder Shares (as defined below), the loan under the Note from the Sponsor of approximately $149,000 (see Note 5) to the Company, and the net proceeds from the consummation of the Private Placement not held in the Trust Account. The Company fully repaid the Note on March 25, 2021. In addition, in order to finance transaction costs in connection with an initial business combination, the Company's officers, directors and initial shareholders may, but are not obligated to, provide the Company Working Capital Loans (see Note 5). To date, there were no amounts outstanding under any Working Capital Loans.

In connection with the Company's assessment of going concern considerations in accordance with FASB ASC Topic 205-40, "Presentation of Financial Statements — Going Concern," management has determined that the liquidity conditions and the mandatory liquidation and subsequent dissolution raise substantial doubt about the Company's ability to continue as a going concern. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be required to liquidate after the Combination Period. The condensed consolidated financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X and pursuant to the rules and regulations of the SEC. Accordingly, certain disclosures included in the annual financial statements have been condensed or omitted from these financial statements as they are not required for interim financial statements. In the

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the balances and results for the periods presented. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected through December 31, 2023.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 31, 2023, which contains the audited financial statements and notes thereto. The financial information as of December 31, 2022, is derived from the audited financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 31, 2023.

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

*Emerging Growth Company*

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

This may make comparison of the Company's condensed consolidated financial statements with another public company that is neither an emerging growth company nor an emerging growth company that has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires the Company's 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 condensed consolidated financial statements. Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the condensed consolidated financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

*Cash and Cash Equivalents*

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. The Company had no cash equivalents held outside the Trust Account as of September 30, 2023 or December 31, 2022.

*Cash and Investments Held in Trust Account*

The funds in the Trust Account were, from the Company's Initial Public Offering through February 10, 2023, held only in U.S. government treasury obligations with a maturity of 185 days or less or in money market funds investing solely in U.S. government treasury obligations and meeting certain conditions under Rule 2a-7 under the Investment Company Act. However, to mitigate the risk of the Company being deemed to have been operating as an unregistered investment company (including under the subjective test of Section 3(a)(1)(A) of the Investment Company Act), on February 10, 2023, the Company instructed Continental Stock Transfer & Trust Company, the trustee with respect to the Trust Account, to liquidate the U.S. government treasury obligations or money market funds held in the Trust Account and thereafter to hold all funds in the Trust Account in an interest-bearing demand deposit account until the earlier of consummation of the Company's initial business combination or liquidation.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash accounts in a financial institution, which, at times, may exceed the Federal Depository Insurance Coverage of $250,000, and investments held in the Trust Account. At September 30, 2023, the Company has not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

*Fair Value of Financial Instruments*

The fair value of the Company's assets and liabilities, which qualify as financial instruments under the FASB ASC Topic 820, "Fair Value Measurements," equal or approximate the carrying amounts represented in the condensed consolidated balance sheets.

*Fair Value Measurements*

Fair value is defined as the price that would be received for sale of an asset or paid for transfer of a liability, in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These consist of:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

In some circumstances, the inputs used to measure fair value might be categorized within different levels of the fair value hierarchy. In those instances, the fair value measurement is categorized in its entirety in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

*Derivative Warrant Liabilities*

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. The Company evaluates all of its financial instruments, including issued share purchase warrants and forward purchase agreements, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives, pursuant to ASC 480 and FASB ASC Topic 815, "Derivatives and Hedging" ("ASC 815"). The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period.

The warrants issued as part of the Units sold in connection with the Company's Initial Public Offering (the "Public Warrants") (including sale of the Over-Allotment Units) and the Private Placement Warrants (as defined in Note 4) are recognized as derivative liabilities in accordance with ASC 815. Accordingly, the Company recognizes the warrant instruments as liabilities at fair value and adjusts the instruments to fair value at each reporting period. The liabilities are subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's condensed consolidated statements of operations. The initial estimated fair value of the warrants was measured using a Monte Carlo simulation. The subsequent estimated fair value of the Public Warrants is based on the listed price in an active market for such warrants while the fair value of the Private Placement Warrants continues to be measured using a Monte Carlo simulation with the key inputs being directly or indirectly observable from the Public Warrants listed price.

*Offering Costs Associated with the Initial Public Offering*

Offering costs consisted of legal, accounting, underwriting fees and other costs incurred through the Initial Public Offering that were directly related to the Initial Public Offering. Offering costs were allocated to the separable financial instruments issued in the Initial Public Offering based on a relative fair value basis, compared to total proceeds received. Offering costs associated with derivative warrant liabilities were expensed as incurred and presented as non-operating expenses in the condensed consolidated statements of operations. Offering costs associated with the Class A ordinary shares issued were charged against the carrying value of Class A ordinary shares subject to possible redemption upon the completion of the Initial Public Offering. The Company classifies deferred underwriting commissions as non-current liabilities as their liquidation is not reasonably expected to require the use of current assets or require the creation of current liabilities.

*Class A Ordinary Shares Subject to Possible Redemption*

The Company accounts for its Class A ordinary shares subject to possible redemption in accordance with the guidance in ASC 480. Class A ordinary shares subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. Conditionally redeemable Class A ordinary shares (including Class A ordinary shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, Class A ordinary shares are classified as shareholders' equity. The Company's Public Shares feature certain redemption rights that are considered to be outside of the Company's control and subject to the occurrence of uncertain future events.

Accordingly, as of September 30, 2023 and December 31, 2022, 1,837,593 and 32,369,251, respectively, Class A ordinary shares subject to possible redemption are presented at redemption value as temporary equity, outside of the shareholders' equity section of the Company's condensed consolidated balance sheets.

Effective with the closing of the Initial Public Offering (including sale of the Over-Allotment Units), the Company recognized the accretion from initial book value to redemption amount, which resulted in charges against additional paid-in capital (to the extent available) and accumulated deficit.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

*Income Taxes*

The Company accounts for income taxes under FASB ASC Topic 740, "Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statement and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company's management determined that the Cayman Islands is the Company's only major tax jurisdiction. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. There were no unrecognized tax benefits and no amounts accrued for interest and penalties as of September 30, 2023 or December 31, 2022. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company is considered an exempted Cayman Islands Company and is presently not subject to income taxes or income tax filing requirements in the Cayman Islands or the United States. As such, the Company's tax provision was zero for the period presented. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

*Net (Loss) Income Per Ordinary Share*

The Company complies with accounting and disclosure requirements of FASB ASC Topic 260, "Earnings Per Share." The Company has two classes of shares, which are referred to as Class A ordinary shares subject to possible redemption and non-redeemable Class A ordinary shares and Class B ordinary shares. Income and losses are shared pro rata between the two classes of shares. Net (loss) income per ordinary share is calculated by dividing the net (loss) income by the weighted average of ordinary shares outstanding for the respective period.

The calculation of diluted net (loss) income per ordinary shares does not consider the effect of the Public Warrants and the Private Placement Warrants to purchase an aggregate of 16,699,626 ordinary shares in the calculation of diluted income per share, because their exercise is contingent upon future events and their inclusion would be anti-dilutive under the treasury stock method. As a result, diluted net (loss) income per share is the same as basic net (loss) income per share for the three and nine months ended September 30, 2023 and 2022. Remeasurement associated with the redeemable Class A ordinary shares is excluded from net (loss) income per share as the redemption value approximates fair value.

The following table reflects presents a reconciliation of the numerator and denominator used to compute basic and diluted net (loss) income per share of ordinary shares:

| | For The Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | Class A | Class A non-redeemable and Class B | Class A | Class A non-redeemable and Class B |
| Basic and diluted net (loss) income per ordinary share: | | | | |
| *Numerator:* | | | | |
| Allocation of net (loss) income | $ (301,755) | $ (1,187,786) | $ 1,178,664 | $ 332,172 |
| *Denominator:* | | | | |
| Basic and diluted weighted average ordinary shares outstanding | 2,317,511 | 9,122,313 | 32,369,251 | 9,122,313 |
| Basic and diluted net (loss) income per ordinary share | $ (0.13) | $ (0.13) | $ 0.04 | $ 0.04 |

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

| | For The Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | Class A | Class A non-redeemable and Class B | Class A | Class A non-redeemable and Class B |
| Basic and diluted net (loss) income per ordinary share: | | | | |
| *Numerator:* | | | | |
| Allocation of net (loss) income | $ (1,153,335) | $ (993,376) | $ 6,772,201 | $ 1,908,544 |
| *Denominator:* | | | | |
| Basic and diluted weighted average ordinary shares outstanding | 10,591,230 | 9,122,313 | 32,369,251 | 9,122,313 |
| Basic and diluted net (loss) income per ordinary share | $ (0.11) | $ (0.11) | $ 0.21 | $ 0.21 |

*Recent Accounting Pronouncements*

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13 — Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This update requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Since June 2016, the FASB issued clarifying updates to the new standard including changing the effective date for smaller reporting companies. The guidance is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2016-13 on January 1, 2023. The adoption of ASU 2016-13 did not have an impact on its financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

**Note 3 — Initial Public Offering**

On March 23, 2021, the Company consummated its Initial Public Offering of 30,000,000 Units, at $10.00 per Unit, generating gross proceeds of $300.0 million, and incurring underwriting fees and other offering costs of approximately $17.2 million, inclusive of approximately $10.5 million in deferred underwriting commissions.

On April 7, 2021, the underwriters exercised the over-allotment option in part and purchased the Over-Allotment Units, generating gross proceeds of $23,692,510, and 532,687 Founder Shares (as defined below) were subsequently forfeited by the Sponsor.

Each Unit consists of one Class A ordinary share and one-half of one redeemable warrant. Each whole Public Warrant entitles the holder to purchase one Class A ordinary share at an exercise price of $11.50 per share, subject to adjustment (see Note 9).

**Note 4 — Private Placement**

Simultaneously with the closing of the Initial Public Offering, the Company consummated the Private Placement of 1,030,000 Private Placement Units at a price of $10.00 per Private Placement Unit, generating total gross proceeds of $10.3 million.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4 — Private Placement** (cont.)

The proceeds from the sale of the Private Placement Units were added to the net proceeds from the Initial Public Offering held in the Trust Account. If the Company does not complete an initial business combination within the Combination Period, the private placement warrants underlying the Private Placement Units (the "Private Placement Warrants") will expire worthless.

**Note 5 — Related Party Transactions**

***Founder Shares***

On January 22, 2021, the Sponsor paid an aggregate of $25,000 to cover certain offering costs of the Company in consideration for 8,625,000 of the Company's Class B ordinary shares (the "Founder Shares"). The Founder Shares included an aggregate of up to 1,125,000 shares subject to forfeiture by the Sponsor to the extent that the underwriters' over-allotment was not exercised in full or in part, so that the number of Founder Shares would collectively represent 20% of the Company's issued and outstanding shares upon the completion of the Initial Public Offering (excluding the Private Placement Shares). On April 7, 2021, the underwriter exercised its over-allotment option in part, and 532,687 Founder Shares were subsequently forfeited by the Sponsor.

The Sponsor agreed, subject to limited exceptions, not to transfer, assign or sell any of its Founder Shares until the earlier to occur of: (A) one year after the completion of an initial business combination; and (B) subsequent to an initial business combination, (x) if the closing price of the Class A ordinary shares equals or exceeds $12.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 120 days after an initial business combination, or (y) the date on which the Company completes a liquidation, merger, amalgamation, share exchange, reorganization or other similar transaction that results in all of the Company's shareholders having the right to exchange their Class A ordinary shares for cash, securities or other property.

Effective as of March 27, 2023, pursuant to the terms of the Amended and Restated Memorandum and Articles of Association, the Sponsor elected to convert each outstanding Class B ordinary share held by it on a one-for-one basis into Class A ordinary shares of the Company, with immediate effect.

On June 26, 2023, the Company issued one Class B ordinary share for no consideration to assist with administrative function.

***Promissory Note — Related Party***

On January 22, 2021, the Company entered into a promissory note with the Sponsor, pursuant to which the Company could have borrowed up to an aggregate principal amount of $251,000 (the "Note"). The Note was non-interest bearing and payable upon the completion of the Initial Public Offering. The Company borrowed approximately $149,000 under the Note and fully repaid the Note on March 25, 2021.

***Related Party Loans***

In order to finance transaction costs in connection with an initial business combination, the Sponsor or an affiliate of the Sponsor, or certain of the Company's officers and directors may, but are not obligated to, loan the Company funds as may be required ("Working Capital Loans"). Such Working Capital Loans would be evidenced by promissory notes. The notes may be repaid upon completion of an initial business combination, without interest, or, at the lender's discretion, up to $1,500,000 of the notes may be converted upon completion of an initial business combination into private placement-equivalent units at a price of $10.00 per unit. Such units would be identical to the Private Placement Units. In the event that an initial business combination does not close, the Company may use a portion of proceeds held outside the Trust Account to repay the Working Capital Loans, but no proceeds held in the Trust Account would be used to repay the Working Capital Loans. Except for the foregoing, the terms of such Working Capital Loans, if any, have not been determined and no written agreements exist with respect to such loans. As of September 30, 2023 and December 31, 2022, the Company had no borrowings under the Working Capital Loans.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5 — Related Party Transactions** (cont.)

***Advances from Related Party***

As of September 30, 2023 and December 31, 2022, the Sponsor advanced $140,560 and $0, respectively, to the Company.

***Administrative Services Agreement***

The Company entered into an agreement that provides that, commencing on effective date of the Initial Public Offering, the Company agreed to pay the Sponsor $10,000 per month for office space, utilities, secretarial and administrative support services. Upon completion of an initial business combination or its liquidation, the Company will cease paying these monthly fees. During the three months ended September 30, 2023 and 2022, the Company incurred $30,000 of such fees, reported as general and administrative expenses — related party in the accompanying consolidated statements of operations. During the nine months ended September 30, 2023 and 2022, the Company incurred $90,000 of such fees, reported as general and administrative expenses — related party in the accompanying consolidated statements of operations. On November 30, 2022, the Sponsor assigned the Administrative Services Agreement, to Sagara Group, LLC, which is a company controlled by Samuel Gloor, the Company's Chief Executive Officer and Chief Financial Officer.

**Note 6 — Commitments and Contingencies**

***Registration and Shareholder Rights***

The holders of the Founder Shares, Private Placement Units (including the underlying securities) and securities that may be issued upon conversion of the Working Capital Loans are entitled to registration rights pursuant to a registration rights agreement signed upon the effective date of the Initial Public Offering requiring the Company to register a sale of any of the securities held by them, including any other securities of the Company acquired by them prior to the consummation of the Company's initial business combination. The holders of these securities are entitled to make up to three demands, excluding short form demands, that the Company register such securities. In addition, the holders have certain "piggy-back" registration rights with respect to registration statements filed subsequent to the completion of an initial business combination. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

***Underwriting Agreement***

The Company granted the underwriters a 45-day option to purchase up to 4,500,000 additional Units to cover over-allotments at the Initial Public Offering price, less the underwriting discounts and commissions. On April 7, 2021, the underwriters exercised the over-allotment option in part and purchased the Over-Allotment Units, generating gross proceeds of $23,692,510.

The underwriters received a cash underwriting discount of $0.20 per Unit, or $6.5 million in the aggregate, paid upon the closing of the Initial Public Offering and sale of Over-Allotment Units. In addition, the underwriters were entitled to a deferred fee of $0.35 per Unit, or $11.3 million in the aggregate. The deferred fee was to become payable to the underwriters from the amounts held in the Trust Account solely in the event that the Company completes an initial business combination, subject to the terms of the underwriting agreement.

On May 30, 2023, the underwriters waived their entitlement to receive payment of the deferred underwriting commissions of $11,329,238, that was to be paid under the terms of the underwriting agreement, only in the event of closing of a business combination with Airship AI Holdings, Inc.

***Non-Redemption Agreements***

On March 8, 2023, the Company entered into two non-redemption agreements (collectively, the "Non-Redemption Agreements") with certain of its existing Public Shareholders (the "Non-Redeeming Shareholders"). Pursuant to the two Non-Redemption Agreements, each of the Non-Redeeming Shareholders agreed to (a) not redeem 1,000,000 Public

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6 — Commitments and Contingencies** (cont.)

Shares held by each party on the date of the Non-Redemption Agreements in connection with the vote to amend the Company's Amended and Restated Memorandum and Articles of Association to extend the date by which the Company has to consummate an initial business combination from March 23, 2023 to September 25, 2023 and (b) vote their Public Shares in favor of the Extension presented by the Company for approval by its shareholders. In connection with the foregoing, the Company agreed to pay to each Non-Redeeming Shareholder $0.033 per Share in cash. The value of the shareholder Non-Redemption Agreements of $396,000 was determined to be an issuance cost in accordance with Staff Accounting Bulletin Topic 5A and as such recorded to accumulated deficit as of the date the agreements were executed. One of the Non-Redeeming Shareholders sold Class A ordinary shares prior to September 25, 2023, resulting in a $20,144 reduction in the shareholder non-redemption agreement liability. As of September 30, 2023, the total outstanding shareholder non-redemption agreement liability is $250,243 which is included in the condensed consolidated balance sheets. There was no outstanding shareholder non-redemption agreement liability as of December 31, 2022.

On September 14, 2023, the Company entered into an amendment to the Non-Redemption Agreement previously entered into on March 8, 2023 with the Non-Redeeming Shareholder holding 1,000,000 Public Shares. Pursuant to the amendment to the Non-Redemption Agreement, the Non-Redeeming Shareholder agreed to (a) not redeem any Public Shares held by it on the date of the Non-Redemption Agreement in connection with the vote to amend the Company's Amended and Restated Memorandum and Articles of Association to further extend the date by which the Company has to consummate an initial business combination from September 25, 2023 to December 26, 2023 (the "Extended Date") and to allow the Company, without another shareholder vote, by resolution of the Company's board of directors, to elect to further extend such date by three months until March 26, 2024 (the "Extension" and such additional extended date, the "Additional Extended Date") and (b) vote all of its Public Shares in favor of the Extension presented by the Company for approval by its shareholders. In connection with the foregoing, the Company agreed to extend its obligation to pay to the Non-Redeeming Shareholder $0.033 per share in cash per month through the Extended Date and Additional Extended Date, if applicable. The value of the amendment to the shareholder Non-Redemption Agreements was $6,387 as of September 30, 2023 and was determined to be an issuance cost in accordance with Staff Accounting Bulletin Topic 5A and as such recorded to accumulated deficit as of the date the agreements were executed.

On August 1, 2023, the Company entered into a Non-Redemption Agreement with a Non-Redeeming Shareholder holding Class A ordinary shares, pursuant to which the Non-Redeeming Shareholder agreed not to redeem $1 million in aggregate value of Class A ordinary shares held by it on the date of the Non-Redemption Agreement in connection with the Merger Agreement.

***Non-Redemption Agreement — Related Party***

On August 1, 2023, the Company entered into a non-redemption agreement ("August Non-Redemption Agreement") with the Sponsor. Pursuant to the August Non-Redemption Agreement, Sponsor agreed to acquire from shareholders of the Company $6 million in aggregate value of the Company's Class A ordinary shares, either in the open market or through privately negotiated transactions, at a price no higher than the redemption price per share payable to Public Shareholders who exercise redemption rights with respect to their Class A ordinary shares, prior to the closing date of the Business Combination, to waive its redemption rights and hold the Class A ordinary shares through the closing date of the Business Combination, and to abstain from voting and not vote the Class A ordinary shares in favor of or against the Business Combination. As consideration for the August Non-Redemption Agreement, the Company agreed to pay the Sponsor $0.033 per Class A ordinary shares per month, which will begin accruing on the date that is three days after the date of the August Non-Redemption Agreement and terminate on the earlier of the closing date of the Business Combination, the termination of the Merger Agreement, or the Outside Closing Date (as defined in the Merger Agreement). As a result, the Sponsor acquired an aggregate of 570,555 Class A ordinary shares. As of September 30, 2023, the total outstanding shareholder non-redemption agreement liability — related party is $37,657 which is included in the condensed consolidated balance sheets. There was no outstanding shareholder non-redemption agreement liability — related party as of December 31, 2022.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6 — Commitments and Contingencies** (cont.)

***Merger Agreement***

On June 27, 2023, the Company (which shall de-register from the Register of Companies in the Cayman Islands by way of continuation out of the Cayman Islands and into the State of Delaware so as to migrate to and domesticate as a Delaware corporation prior to the Closing Date (as defined below)), entered into a merger agreement, by and among the Company, BYTE Merger Sub Inc, ("Merger Sub"), and Airship AI Holdings, Inc., a Washington corporation ("Airship AI") (as it may be amended and/or restated from time to time, the "Merger Agreement").

On September 22, 2023, the Company, Airship AI, and Merger Sub entered into an amendment to the Merger Agreement (the "Amendment"). The Amendment amends the Merger Agreement to extend the last date for the Company to consummate the Business Combination (the "Outside Closing Date") from December 26, 2023 to the latest of (a) September 25, 2023, (b) if the Extension Proposal (as defined in the Merger Agreement) is approved, March 26, 2024 and (C) if one or more extensions to a date following March 26, 2024 with Airship AI Holdings, Inc.'s approval is obtained at the election of the Company, with the Company's shareholder vote, in accordance with the Company's Amended and Restated Memorandum and Articles of Association, the last date for the Company to the Business Combination pursuant to such extensions.

*Parent Support Agreement*

In connection with the execution of the Merger Agreement, Byte entered into a support agreement (the "Parent Support Agreement") with the Sponsor and Airship AI, pursuant to which the Sponsor agreed to, among other things, vote all of its shares in favor of the various proposals related to the Business Combination and the Merger Agreement and any other matters necessary or reasonably requested by Byte for consummation of the Business Combination. The Sponsor has also agreed (a) to forfeit 1,000,000 Byte Class A ordinary shares owned by the Sponsor on the Closing Date and (b) to contribute up to 2,600,000 Byte Class A ordinary shares owned by the Sponsor to secure the Non-Redemption Agreements and/or the PIPE financing. The Parent Support Agreement also provides that the Sponsor Shares will be subject to a lock-up for a period of 180 days following the Closing.

*Company Support Agreement*

In connection with the execution of the Merger Agreement, Byte entered into a support agreement (the "Company Support Agreement") with Airship AI and certain shareholders of Airship AI (the "Company Supporting Shareholders"), pursuant to which the Company Supporting Shareholders agreed to, among other things, (i) vote to adopt and approve, or to execute a written consent with respect to the approval, within five business days following the date of the effectiveness of the registration statement on Form S-4, the Merger Agreement and all other documents and transactions contemplated thereby, (ii) vote against any alternative proposal or alternative transaction or any proposal relating to an alternative proposal or alternative transaction, (iii) vote against any merger agreement or merger, consolidation, or combination sale of substantial assets, reorganization, recapitalization, dissolution, liquidation or winding up of or by the Company (other than the Merger Agreement and the transactions relating to the Business Combination), (iv) vote against any change in the business (to the extent in violation of the Merger Agreement), management or board of directors of the Company (other than in connection with the Business Combination), and (v) vote against any proposal that would impede the Business Combination or that would result in a breach with respect to any obligation or agreement of the Company or the Company Supporting Shareholders under the Merger Agreement or the Company Support Agreement, in each case, subject to the terms and conditions of the Company Support Agreement

**Note 7 — Class A Ordinary Shares Subject to Possible Redemption**

The Company's Public Shares feature certain redemption rights that are considered to be outside of the Company's control and subject to the occurrence of future events. As of September 30, 2023 and December 31, 2022, there were 1,837,593 and 32,369,251 Class A ordinary shares subject to possible redemption and classified outside of permanent equity in the condensed consolidated balance sheets.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7 — Class A Ordinary Shares Subject to Possible Redemption** (cont.)

In connection with the extraordinary general meeting held on March 16, 2023, holders of 30,006,034 of the Company's Class A ordinary shares exercised their right to redeem for a redemption value totaling $306,691,945. In connection with the extraordinary general meeting held on September 22, 2023, holders of 525,624 of the Company's Class A ordinary shares exercised their right to redeem for a redemption value totaling $5,587,383, which remains outstanding and payable as of September 30, 2023.

The Class A ordinary shares subject to possible redemption reflected on the condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022 is reconciled on the following table:

| | |
|---|---|
| Gross proceeds from Initial Public Offering, including sale of the Over-Allotment Units | $ 323,692,510 |
| Less: | |
| Fair value of Public Warrants at issuance | (15,217,550) |
| Offering costs allocated to Class A ordinary shares subject to possible redemption | (17,636,964) |
| Plus: | |
| Initial accretion on Class A ordinary shares subject to possible redemption amount | 32,854,514 |
| Remeasurement on Class A ordinary shares subject to possible redemption amount | 4,433,922 |
| **Class A ordinary shares subject to possible redemption, December 31, 2022** | **328,126,432** |
| Less: | |
| Redemption of Class A ordinary shares | (306,691,945) |
| Redemption payable | (5,587,383) |
| Plus: | |
| Accretion on Class A ordinary shares subject to possible redemption amount | 3,720,218 |
| **Class A ordinary shares subject to possible redemption, September 30, 2023** | **$ 19,567,322** |

**Note 8 — Shareholders' Deficit**

***Preference Shares —*** The Company is authorized to issue 1,000,000 preference shares with a par value of $0.0001 per share. The Company's board of directors is authorized to fix the voting rights, if any, designations, powers, preferences, the relative, participating, optional or other special rights and any qualifications, limitations and restrictions thereof, applicable to the shares of each series. The board of directors will be able to, without shareholder approval, issue preferred shares with voting and other rights that could adversely affect the voting power and other rights of the holders of the ordinary shares and could have anti-takeover effects. At September 30, 2023 and December 31, 2022, there were no preference shares issued or outstanding.

***Class A Ordinary Shares —*** The Company is authorized to issue 200,000,000 Class A ordinary shares with a par value of $0.0001 per share. Holders of the Company's Class A ordinary shares are entitled to one vote for each share. At September 30, 2023 and December 31, 2022, there were 9,122,313 and 1,030,000 Class A ordinary shares issued or outstanding, excluding 1,837,593 and 32,369,251 Class A ordinary shares subject to possible redemption, respectively, which have been classified as temporary equity (see Note 7).

***Class B Ordinary Shares —*** The Company is authorized to issue 20,000,000 Class B ordinary shares with a par value of $0.0001 per share. Holders of the Class B ordinary shares are entitled to one vote for each share. As of September 30, 2023 and December 31, 2022, there were 1 and 8,092,313 Class B ordinary shares issued and outstanding.

Effective as of March 27, 2023, pursuant to the terms of the Amended and Restated Memorandum and Articles of Association, the Sponsor elected to convert each outstanding Class B ordinary share held by it on a one-for-one basis into Class A ordinary shares of the Company, with immediate effect.

On June 26, 2023, the Company issued one Class B ordinary share for no consideration to assist with administrative function.

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 9 — Warrants**

As of September 30, 2023 and December 31, 2022, the Company had an aggregate of 16,699,626 warrants outstanding, comprised of 16,184,626 Public Warrants and 515,000 Private Placement Warrants.

Public Warrants may only be exercised for a whole number of shares. No fractional warrants will be issued upon separation of the Units and only whole warrants will trade. The Public Warrants will become exercisable 30 days after the completion of an initial business combination. The Public Warrants will expire five years from the completion of an initial business combination, or earlier upon redemption or liquidation.

The Company will not be obligated to deliver any Class A ordinary shares pursuant to the exercise of a Public Warrant and will have no obligation to settle such Public Warrant exercise unless a registration statement under the Securities Act with respect to the Class A ordinary shares underlying the warrants is then effective and a prospectus relating thereto is current, subject to the Company satisfying its obligations with respect to registration. No warrant will be exercisable and the Company will not be obligated to issue a Class A ordinary share upon exercise of a warrant unless the Class A ordinary share issuable upon such warrant exercise has been registered, qualified or deemed to be exempt under the securities laws of the state of residence of the registered holder of the warrants.

*Redemption of warrants when the price per Class A ordinary share equals or exceeds $18.00:*

Once the warrants become exercisable, the Company may call the outstanding warrants for redemption (except as described with respect to the Private Placement Warrants):

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon a minimum of 30 days' prior written notice of redemption to each warrant holder; and
- if, and only if, the closing price of the Class A ordinary shares equals or exceeds $18.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within a 30-trading day period ending three business days before the Company sends to the notice of redemption to the warrant holders (the "Reference Value").

If and when the warrants become redeemable by the Company, the Company may exercise its redemption right even if it is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

*Redemption of warrants when the price per Class A ordinary share equals or exceeds $10.00:*

Once the warrants become exercisable, the Company may redeem the outstanding warrants:

- in whole and not in part;
- at a price of $0.10 per warrant;
- upon not less than 30 days' prior written notice of redemption to each warrant holder;
- if, and only if, the Reference Value equals or exceeds $10.00 per Public Share (as adjusted) for any 20 trading days within the 30-trading day period ending three trading days before the Company sends the notice of redemption to the warrant holders; and
- if the Reference Value is less than $18.00 per share (as adjusted), the Private Placement Warrants must also be concurrently called for redemption on the same terms as the outstanding Public Warrants, as described above.

If the Company calls the Public Warrants for redemption, as described above, its management will have the option to require any holder that wishes to exercise the Public Warrants to do so on a "cashless basis," as described in the warrant agreement. The exercise price and number of ordinary shares issuable upon exercise of the Public Warrants may be

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 9 — Warrants** (cont.)

adjusted in certain circumstances including in the event of a share dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation. However, except as described below, the Public Warrants will not be adjusted for issuances of ordinary shares at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Public Warrants. If the Company is unable to complete an initial business combination within the Combination Period and the Company liquidates the funds held in the Trust Account, holders of Public Warrants will not receive any of such funds with respect to their Public Warrants, nor will they receive any distribution from the Company's assets held outside of the Trust Account with respect to such Public Warrants. Accordingly, the Public Warrants may expire worthless.

In addition, if (x) the Company issues additional Class A ordinary shares or equity-linked securities for capital raising purposes in connection with the closing of an initial business combination at an issue price or effective issue price of less than $9.20 per Class A ordinary share (with such issue price or effective issue price to be determined in good faith by the Company's board of directors and, in the case of any such issuance to the Sponsor or its affiliates, without taking into account any Founder Shares held by the Sponsor or such affiliates, as applicable, prior to such issuance) (the "Newly Issued Price"), (y) the aggregate gross proceeds from such issuances represent more than 60% of the total equity proceeds, and interest thereon, available for the funding of an initial business combination, and (z) the volume weighted average trading price of the Class A ordinary shares during the 20 trading day period starting on the trading day prior to the day on which the Company consummates an initial business combination (such price, the "Market Value") is below $9.20 per share, then the exercise price of the warrants will be adjusted (to the nearest cent) to be equal to 115% of the higher of the Market Value and the Newly Issued Price, and the $18.00 per share redemption trigger price will be adjusted (to the nearest cent) to be equal to 180% of the higher of the Market Value and the Newly Issued Price.

The Private Placement Warrants are identical to the Public Warrants underlying the Units being sold in the Initial Public Offering, except that (x) the Private Placement Warrants and the Class A ordinary shares issuable upon the exercise of the Private Placement Warrants are not transferable, assignable or salable until 30 days after the completion of an initial business combination, subject to certain limited exceptions, (y) the Private Placement Warrants will be exercisable on a cashless basis and be non-redeemable so long as they are held by the initial purchasers or their permitted transferees and (z) the initial purchasers of the Private Placement Warrants and the Class A ordinary shares issuable upon exercise of the Private Placement Warrants are entitled to registration rights. If the Private Placement Warrants are held by someone other than the initial purchasers or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

**Note 10 — Fair Value Measurements**

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 and indicates the fair value hierarchy of the valuation techniques that the Company utilized to determine such fair value.

**As of September 30, 2023**

| Description | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|
| **Liabilities:** | | | |
| Derivative warrant liabilities – Public warrants | $ 3,722,464 | $ — | $ — |
| Derivative warrant liabilities – Private placement warrants | $ — | $ 118,450 | $ — |

**BYTE ACQUISITION CORP.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 10 — Fair Value Measurements** (cont.)

**As of December 31, 2022**

| Description | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|
| **Assets:** | | | |
| Investments held in Trust Account – Money market fund | $ 328,226,432 | $ — | $ — |
| | | | |
| **Liabilities:** | | | |
| Derivative warrant liabilities – Public warrants | $ 1,294,770 | $ — | $ — |
| Derivative warrant liabilities – Private placement warrants | $ — | $ 41,280 | $ — |

Transfers to/from Levels 1, 2, and 3 are recognized at the beginning of the reporting period. The estimated fair value of the Public Warrants was transferred from a Level 3 measurement to a Level 1 measurement in May 2021, when the Public Warrants were separately listed and traded in an active market. The estimated fair value of the Private Placement Warrants was transferred from a Level 3 measurement to a Level 2 measurement in May 2021, as the key inputs to the valuation model became directly or indirectly observable from the Public Warrants listed price.

The initial estimated fair value of the warrants was measured using a Monte Carlo simulation. The subsequent estimated fair value of the Public Warrants is based on the listed price in an active market for such warrants while the fair value of the Private Placement Warrants continues to be measured using a Monte Carlo simulation, with level 2 inputs. For the three months ended September 30, 2023 and 2022, the Company recognized a loss and gain resulting from changes in the fair value of derivative warrant liabilities of approximately $1.0 million and $0.3 million, respectively, which is presented in the accompanying consolidate statements of operations. For the nine months ended September 30, 2023 and 2022, the Company recognized a loss and gain resulting from changes in the fair value of derivative warrant liabilities of approximately $2.5 million and $7.7 million, respectively, which is presented in the accompanying consolidate statements of operations.

**Note 11 — Subsequent Events**

The Company has evaluated subsequent events and transactions that occurred up to the date the unaudited condensed consolidated financial statements were issued. Based upon this review, other than as described below, the Company did not identify any subsequent events that would have required adjustment or disclosure in the unaudited condensed consolidated financial statements.

On November 1, 2023, the Company received an additional advance of $224,500 from a related party.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
BYTE Acquisition Corp.

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Byte Acquisition Corp. (the "Company") as of December 31, 2022 and 2021, the related statements of operations, changes in stockholders' deficit and cash flows for the year ended December 31, 2022 and the period from January 8, 2021 (inception) through December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the year ended December 31, 2022 and the period from January 8, 2021 (inception) through December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

**Explanatory Paragraph — Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1 to the financial statements, the Company's business plan is dependent on the completion of a business combination and raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2021.

Houston, TX

March 30, 2023

**BYTE ACQUISITION CORP.**
**BALANCE SHEETS**

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 1,054,581 | $ 1,663,104 |
| Prepaid expenses | 133,091 | 572,250 |
| **Total current assets** | 1,187,672 | 2,235,354 |
| Non-current assets: | | |
| Investments held in Trust Account | 328,226,432 | 323,716,979 |
| Prepaid expenses (non-current) | — | 120,082 |
| **Total non-current assets** | 328,226,432 | 323,837,061 |
| **Total Assets** | **$ 329,414,104** | **$ 326,072,415** |
| | | |
| **Liabilities, Class A Ordinary Shares Subject to Possible Redemption and Shareholders' Deficit:** | | |
| Current liabilities: | | |
| Accounts payable | $ 83,999 | $ 23,387 |
| Accrued expenses | 349,835 | 181,202 |
| **Total current liabilities** | 433,834 | 204,589 |
| Deferred underwriting commissions | 11,329,238 | 11,329,238 |
| Derivative warrant liabilities | 1,336,050 | 8,854,570 |
| **Total liabilities** | 13,099,122 | 20,388,397 |
| | | |
| **Commitments and Contingencies** | | |
| | | |
| Class A ordinary shares subject to possible redemption at $10.14 and $10.00 per share, $0.0001 par value; 32,369,251 shares issued and outstanding as of December 31, 2022 and 2021, respectively | 328,126,432 | 323,692,510 |
| | | |
| **Shareholders' Deficit:** | | |
| Preference shares, $0.0001 par value; 1,000,000 shares authorized; none issued and outstanding | — | — |
| Class A ordinary shares, $0.0001 par value; 200,000,000 shares authorized; 1,030,000 shares issued and outstanding (excluding 32,369,251 shares subject to possible redemption) as of December 31, 2022 and 2021, respectively | 103 | 103 |
| Class B ordinary shares, $0.0001 par value; 20,000,000 shares authorized; 8,092,313 shares issued and outstanding as of December 31, 2022 and 2021, respectively | 809 | 809 |
| Additional paid-in capital | — | — |
| Accumulated deficit | (11,812,362) | (18,009,404) |
| **Total shareholders' deficit** | (11,811,450) | (18,008,492) |
| **Total Liabilities, Class A Ordinary Shares Subject to Possible Redemption and Stockholders' Deficit:** | **$ 329,414,104** | **$ 326,072,415** |

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

**BYTE ACQUISITION CORP.**
**STATEMENTS OF OPERATIONS**

| | For the Year Ended December 31, 2022 | For The Period From January 8, 2021 (Inception) through December 31, 2021 |
|---|---|---|
| General and administrative expenses | $ 1,277,009 | $ 921,347 |
| General and administrative expenses – related party | 120,000 | 100,000 |
| Loss from operations | (1,397,009) | (1,021,347) |
| Change in fair value of derivative warrant liabilities | 7,518,520 | 6,862,530 |
| Offering costs associated with derivative warrant liabilities | — | (845,080) |
| Income from investments held in Trust Account | 4,509,453 | 24,469 |
| **Net income** | $ 10,630,964 | $ 5,020,572 |
| **Weighted average shares outstanding of Class A ordinary shares subject to possible redemption** | 32,369,251 | 25,579,130 |
| **Basic and diluted net income per share, Class A ordinary shares subject to possible redemption** | $ 0.26 | $ 0.15 |
| **Weighted average shares outstanding of non-redeemable Class A ordinary shares and Class B ordinary shares** | 9,122,313 | 8,762,157 |
| **Basic and diluted net income per share, non-redeemable Class A ordinary shares and Class B ordinary shares** | $ 0.26 | $ 0.15 |

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

**BYTE ACQUISITION CORP.**
**STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**

**FOR THE YEAR ENDED DECEMBER 31, 2022**

| | Ordinary Shares | | | | Additional | | Total |
|---|---|---|---|---|---|---|---|
| | Class A | | Class B | | Paid-in | Accumulated | Shareholders' |
| | Shares | Amount | Shares | Amount | Capital | Deficit | Deficit |
| **Balance – January 1, 2022** | **1,030,000** | **$ 103** | **8,092,313** | **$ 809** | **$ —** | **$ (18,009,404)** | **$ (18,008,492)** |
| Net income | — | — | — | — | — | 10,630,964 | 10,630,964 |
| Increase in redemption value of Class A ordinary shares subject to redemption | — | — | — | — | — | (4,433,922) | (4,433,922) |
| **Balance – December 31, 2022** | **—** | **$ —** | **—** | **$ —** | **$ —** | **$ (11,812,362)** | **$ (11,811,450)** |

**FOR THE PERIOD FROM JANUARY 8, 2021 (INCEPTION) THROUGH DECEMBER 31, 2021**

| | Ordinary Shares | | | | Additional | | Total |
|---|---|---|---|---|---|---|---|
| | Class A | | Class B | | Paid-in | Accumulated | Shareholders' |
| | Shares | Amount | Shares | Amount | Capital | Deficit | Deficit |
| **Balance – January 8, 2021 (Inception)** | **—** | **$ —** | **—** | **$ —** | **$ —** | **$ —** | **$ —** |
| Issuance of Class B ordinary shares to Sponsor[1] | — | — | 8,625,000 | 863 | 24,137 | — | 25,000 |
| Sale of units in initial private offering, less allocation to derivative warrant liabilities | 1,030,000 | 103 | — | — | 9,800,347 | — | 9,800,450 |
| Accretion of Class A ordinary shares subject to possible redemption amount | — | — | — | — | (9,824,484) | (23,030,030) | (32,854,514) |
| Forfeiture of Class B ordinary shares | — | — | (532,687) | (54) | 54 | — | — |
| Subsequent measurement of Class A ordinary shares subject to redemption against additional paid-in capital | — | — | — | — | (54) | 54 | — |
| Net income | — | — | — | — | — | 5,020,572 | 5,020,572 |
| **Balance – December 31, 2021** | **1,030,000** | **$ 103** | **8,092,313** | **$ 809** | **$ —** | **$ (18,009,404)** | **$ (18,008,492)** |

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

**BYTE ACQUISITION CORP.**
**STATEMENTS OF CASH FLOWS**

| | For the Year Ended December 31, 2022 | For The Period From January 8, 2021 (Inception) through December 31, 2021 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 10,630,964 | $ 5,020,572 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| General and administrative expenses paid by related party in exchange for issuance of Class B ordinary shares | — | 25,000 |
| General and administrative expenses paid by related party under promissory note | — | 2,330 |
| Change in fair value of derivative warrant liabilities | (7,518,520) | (6,862,530) |
| Offering costs associated with derivative warrant liabilities | — | 845,080 |
| Income from investments held in Trust Account | (4,509,453) | (24,469) |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | 559,241 | (692,332) |
| Accounts payable | 60,612 | 23,387 |
| Accrued expenses | 168,633 | 111,202 |
| **Net cash used in operating activities** | (608,523) | (1,551,760) |
| | | |
| **Cash Flows from Investing Activities:** | | |
| Cash deposited in Trust Account | — | (323,692,510) |
| **Net cash used in investing activities** | — | (323,692,510) |
| | | |
| **Cash Flows from Financing Activities:** | | |
| Repayment of note payable to related party | — | (148,620) |
| Proceeds from initial public offering and over-allotment exercise, net | — | 323,692,510 |
| Proceeds received from private placement | — | 10,300,000 |
| Offering costs paid | — | (6,936,516) |
| **Net cash provided by financing activities** | — | 326,907,374 |
| | | |
| **Net change in cash** | (608,523) | 1,663,104 |
| | | |
| **Cash – beginning of the period** | 1,663,104 | — |
| **Cash – end of the period** | **$ 1,054,581** | **$ 1,663,104** |
| | | |
| **Supplemental disclosure of noncash investing and financing activities:** | | |
| Offering costs included in accrued expenses | $ — | $ 70,000 |
| Offering costs paid by related party under promissory note | $ — | $ 146,289 |
| Deferred underwriting commissions | $ — | $ 11,329,238 |
| Remeasurement on Class A ordinary shares subject to possible redemption | $ 4,433,922 | $ 32,854,514 |

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

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 1 — Description of Organization and Business Operations**

BYTE Acquisition Corp. (the "Company") is a blank check company incorporated as a Cayman Islands exempted company on January 8, 2021. The Company was formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses ("Business Combination"). While the Company may pursue an initial business combination target in any business or industry, it intends to focus its search for targets in the Israeli technology industry, including those engaged in cybersecurity, automotive technology, fintech, enterprise software, cloud computing, semiconductors, medical technology, AI and robotics and that offer a differentiated technology platform and products. The Company is an early stage and emerging growth company and, as such, the Company is subject to all of the risks associated with early stage and emerging growth companies.

As of December 31, 2021, the Company had not yet commenced operations. All activity for the period from January 8, 2021 (inception) through December 31, 2022 relates to the Company's formation and the initial public offering (the "Initial Public Offering") and since the closing of the initial public offering, the search for a prospective initial Business Combination. The Company will not generate any operating revenues until after the completion of a Business Combination, at the earliest. The Company generates non-operating income in the form of interest and other income on investments of the proceeds derived from the Initial Public Offering. The Company has selected December 31 as its fiscal year end.

The Company's sponsor is Byte Holdings LP, a Cayman Islands exempted limited partnership (the "Sponsor"). The registration statement for the Company's Initial Public Offering was declared effective on March 17, 2021. On March 23, 2021, the Company consummated its Initial Public Offering of 30,000,000 units (the "Units" and, with respect to the Class A ordinary shares included in the Units, the "Public Shares"), at $10.00 per Unit, generating gross proceeds of $300.0 million, and incurring underwriting fees and other offering costs of approximately $17.2 million, inclusive of approximately $10.5 million in deferred underwriting commissions (see Note 6). The underwriter was granted a 45-day option from the date of the final prospectus relating to the Initial Public Offering to purchase up to 4,500,000 additional Units to cover over-allotments, if any, at $10.00 per Unit. On April 7, 2021, the underwriter exercised the over-allotment option in part and purchased an additional 2,369,251 Units (the "Over-Allotment Units"), generating gross proceeds of $23,692,510.

Simultaneously with the closing of the Initial Public Offering, the Company consummated the private placement ("Private Placement") of 1,030,000 Units (the "Private Placement Units") at a price of $10.00 per Private Placement Unit, generating total gross proceeds of $10.3 million (see Note 4).

Upon the closing of the Initial Public Offering, sale of the Over-Allotment Units and closing of the Private Placement, $323.7 million ($10.00 per Unit) of the net proceeds of the Initial Public Offering, the Over-Allotment Units and certain of the proceeds of the Private Placement was placed in a trust account ("Trust Account") and will be invested in U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), with a maturity of 185 days or less, or in any open-ended investment company that holds itself out as a money market fund meeting certain conditions of Rule 2a-7 of the Investment Company Act, as determined by the Company, until the earlier of: (i) the completion of a Business Combination and (ii) the distribution of the funds in the Trust Account to the Company's shareholders, as described below. In addition, the Company transferred an excess amount of $900,000 into the Trust Account upon closing of the Initial Public Offering, of which approximately $474,000 remained in the Trust Account after closing of the sale of the Over-Allotment Units.

The Company's management has broad discretion with respect to the specific application of the net proceeds of the Initial Public Offering and the sale of the Private Placement Units, although substantially all of the net proceeds are intended to be applied generally toward completing a Business Combination. The Company must complete its initial Business Combination with one or more target businesses that together have a fair market value equal to at least 80% of the net assets held in the Trust Account (excluding the amount of any deferred underwriting commissions held in the Trust Account) at the time of the agreement to enter into a Business Combination. The Company will only complete a Business Combination if the post-Business Combination company owns or acquires 50% or more of the

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 1 — Description of Organization and Business Operations** (cont.)

issued and outstanding voting securities of the target or otherwise acquires a controlling interest in the target business sufficient for it not to be required to register as an investment company under the Investment Company Act. There is no assurance that the Company will be able to successfully effect a Business Combination.

The Company will provide its shareholders of the Public Shares (the "Public Shareholders") with the opportunity to redeem all or a portion of their Public Shares upon the completion of a Business Combination either (i) in connection with a shareholder meeting called to approve the Business Combination or (ii) by means of a tender offer. The decision as to whether the Company will seek shareholder approval of a Business Combination or conduct a tender offer will be made by the Company. The Public Shareholders will be entitled to redeem their Public Shares for a pro rata portion of the amount held in the Trust Account (at $10.00 per share), calculated as of two business days prior to the completion of a Business Combination, including any pro rata interest earned on the funds held in the Trust Account and not previously released to the Company to pay its tax obligations. There will be no redemption rights upon the completion of a Business Combination with respect to the Company's warrants. The Class A ordinary shares were recorded at redemption value and classified as temporary equity in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 480 "Distinguishing Liabilities from Equity" ("ASC 480").

If the Company seeks shareholder approval, the Company will complete a Business Combination only if it receives an ordinary resolution under Cayman Islands law approving a Business Combination, which requires the affirmative vote of a majority of the shareholders who vote at a general meeting of the Company. If a shareholder vote is not required under applicable law or stock exchange listing requirements and the Company does not decide to hold a shareholder vote for business or other reasons, the Company will, pursuant to its Amended and Restated Memorandum and Articles of Association, conduct the redemptions pursuant to the tender offer rules of the Securities and Exchange Commission ("SEC"), and file tender offer documents containing substantially the same information as would be included in a proxy statement with the SEC prior to completing a Business Combination. If the Company seeks shareholder approval in connection with a Business Combination, the Sponsor agreed to vote its Founder Shares (as defined in Note 5), the Class A ordinary shares underlying the Private Placement Units (the "Private Placement Shares") and any Public Shares purchased in or after the Initial Public Offering in favor of approving a Business Combination and to waive its redemption rights with respect to any such shares in connection with a shareholder vote to approve a Business Combination. However, in no event will the Company redeem its Public Shares in an amount that would cause its net tangible assets to be less than $5,000,001. In such case, the Company would not proceed with the redemption of its Public Shares and the related Business Combination, and instead may search for an alternate Business Combination. Additionally, each Public Shareholder may elect to redeem its Public Shares, without voting, and if they do vote, irrespective of whether they vote for or against a proposed Business Combination.

Notwithstanding the foregoing, if the Company seeks shareholder approval of a Business Combination and it does not conduct redemptions pursuant to the tender offer rules, the Company's Amended and Restated Memorandum and Articles of Association provides that a Public Shareholder, together with any affiliate of such shareholder or any other person with whom such shareholder is acting in concert or as a "group" (as defined under Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), will be restricted from redeeming its shares with respect to more than an aggregate of 15% of the Public Shares without the Company's prior written consent.

The Sponsor agreed (a) to waive its redemption rights with respect to any Founder Shares and Public Shares held by it in connection with the completion of a Business Combination and (b) not to propose an amendment to the Amended and Restated Memorandum and Articles of Association (i) to modify the substance or timing of the Company's obligation to redeem 100% of the Public Shares if the Company does not complete a Business Combination within the Combination Period (as defined below) or (ii) with respect to any other provision relating to shareholders' rights or pre-initial business combination activity, unless the Company provides the Public Shareholders with the opportunity to redeem their Public Shares in conjunction with any such amendment and (iii) to waive its rights to liquidating distributions from the Trust Account with respect to the Founder Shares if the Company fails to complete a Business Combination.

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 1 — Description of Organization and Business Operations** (cont.)

The Company will have until 24 months from the closing of the Initial Public Offering, or September 25, 2023 (the "Combination Period") to complete a Business Combination. If the Company is unable to complete a Business Combination within the Combination Period, the Company will (i) cease all operations except for the purpose of winding up, (ii) as promptly as reasonably possible but no more than 10 business days thereafter, redeem 100% of the outstanding Public Shares, at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including interest earned (less taxes payable and up to $100,000 of interest to pay dissolution expenses), divided by the number of then outstanding Public Shares, which redemption will completely extinguish public shareholders' rights as shareholders (including the right to receive further liquidation distributions, if any), and (iii) as promptly as reasonably possible following such redemption, subject to the approval of the remaining shareholders and the Company's board of directors, dissolve and liquidate, subject in each case to its obligations under Cayman Islands law to provide for claims of creditors and the requirements of other applicable law.

The Sponsor agreed to waive its liquidation rights with respect to the Founder Shares and Private Placement Shares if the Company fails to complete a Business Combination within the Combination Period. However, if the Sponsor acquires Public Shares in or after the Initial Public Offering, such Public Shares will be entitled to liquidating distributions from the Trust Account if the Company fails to complete a Business Combination within the Combination Period. The underwriters agreed to waive their rights to their deferred underwriting commission (see Note 6) held in the Trust Account in the event the Company does not complete a Business Combination within the Combination Period and, in such event, such amounts will be included with the funds held in the Trust Account that will be available to fund the redemption of the Public Shares. In the event of such distribution, it is possible that the per share value of the assets remaining available for distribution will be less than the Initial Public Offering price per Unit ($10.00).

The Sponsor agreed that it will be liable to the Company, if and to the extent any claims by a third party for services rendered or products sold to the Company, or by a prospective target business with which the Company has entered into a written letter of intent, confidentiality or other similar agreement or business combination agreement, reduce the amount of funds in the Trust Account to below the lesser of (1) $10.00 per Public Share and (2) the actual amount per Public Share held in the Trust Account as of the date of the liquidation of the Trust Account, if less than $10.00 per Public Share due to reductions in the value of trust assets, less taxes payable. This liability will not apply to any claims by a third party or prospective target business who executed a waiver of any and all rights to the monies held in the Trust Account nor will it apply to any claims under the Company's indemnity of the underwriters of the Initial Public Offering against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). Moreover, in the event that an executed waiver is deemed to be unenforceable against a third party, the Sponsor will not be responsible to the extent of any liability for such third-party claims. The Company will seek to reduce the possibility that the Sponsor will have to indemnify the Trust Account due to claims of creditors by endeavoring to have all vendors, service providers (other than the Company's independent public accountants), prospective target businesses or other entities with which the Company does business, execute agreements with the Company waiving any right, title, interest or claim of any kind in or to monies held in the Trust Account.

*Liquidity and Going Concern*

As of December 31, 2022, the Company had approximately $1.1 million in its operating bank account and working capital of approximately $0.8 million.

The Company's liquidity through the consummation of the Initial Public Offering were satisfied through the payment of $25,000 from the Sponsor to cover certain offering costs on behalf of the Company in exchange for the issuance of the Founder Shares (as defined below), the loan under the Note from the Sponsor of approximately $149,000 (see Note 5) to the Company, and the net proceeds from the consummation of the Private Placement not held in the Trust Account. The Company fully repaid the Note on March 25, 2021. In addition, in order to finance transaction costs in connection with a Business Combination, the Company's officers, directors and Initial Shareholders may, but are not obligated to, provide the Company Working Capital Loans (see Note 5). To date, there were no amounts outstanding under any Working Capital Loans.

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 1 — Description of Organization and Business Operations** (cont.)

In connection with the Company's assessment of going concern considerations in accordance with FASB ASC Topic 205-40, "Presentation of Financial Statements — Going Concern," management has determined that the mandatory liquidation and subsequent dissolution raises substantial doubt about the Company's ability to continue as a going concern. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be required to liquidate after September 25, 2023. The financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

*Risks and Uncertainties*

Management continues to evaluate the impact of the COVID-19 pandemic and has concluded that the specific impact is not readily determinable as of the date of the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying financial statements are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America ("GAAP") for financial information and pursuant to the rules and regulations of the SEC.

*Emerging Growth Company*

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

This may make comparison of the Company's financial statements with another public company that is neither an emerging growth company nor an emerging growth company that has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires the Company's 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. Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

*Cash and Cash Equivalents*

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. The Company had no cash equivalents held outside the Trust Account as of December 31, 2022 and 2021.

*Investments Held in Trust Account*

The Company's portfolio of investments is comprised solely of U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act, with a maturity of 185 days or less, or investments in money market funds that invest in U.S. government securities and generally have a readily determinable fair value, or a combination thereof. When the Company's investments held in the Trust Account are comprised of U.S. government securities, the investments are classified as trading securities. When the Company's investments held in the Trust Account are comprised of money market funds, the investments are recognized at fair value. Trading securities and investments in money market funds are presented on the balance sheets at fair value at the end of each reporting period. Gains and losses resulting from the change in fair value of these securities is included in income from investments held in Trust Account in the accompanying statements of operations. The estimated fair values of investments held in the Trust Account are determined using available market information.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash accounts in a financial institution, which, at times, may exceed the Federal Depository Insurance Coverage of $250,000, and investments held in Trust Account. At December 31, 2022 and 2021, the Company has not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

*Fair Value of Financial Instruments*

The fair value of the Company's assets and liabilities, which qualify as financial instruments under the FASB ASC Topic 820, "Fair Value Measurements," equal or approximate the carrying amounts represented in the balance sheets.

*Fair Value Measurements*

Fair value is defined as the price that would be received for sale of an asset or paid for transfer of a liability, in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These consist of:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

In some circumstances, the inputs used to measure fair value might be categorized within different levels of the fair value hierarchy. In those instances, the fair value measurement is categorized in its entirety in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

*Derivative Warrant Liabilities*

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. The Company evaluates all of its financial instruments, including issued share purchase warrants and forward purchase agreements, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives, pursuant to ASC 480 and FASB ASC Topic 815, "Derivatives and Hedging" ("ASC 815"). The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period.

The warrants issued in connection with the Company's Initial Public Offering (the "Public Warrants") and the Private Placement Warrants are recognized as derivative liabilities in accordance with ASC 815. Accordingly, the Company recognizes the warrant instruments as liabilities at fair value and adjusts the instruments to fair value at each reporting period. The liabilities are subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's statements of operations. The initial estimated fair value of the warrants was measured using a Monte Carlo simulation. The subsequent estimated fair value of the Public Warrants is based on the listed price in an active market for such warrants while the fair value of the Private Placement Warrants continues to be measured using a Monte Carlo simulation with the key inputs being directly or indirectly observable from the Public Warrants listed price.

*Offering Costs Associated with the Initial Public Offering*

Offering costs consisted of legal, accounting, underwriting fees and other costs incurred through the Initial Public Offering that were directly related to the Initial Public Offering. Offering costs were allocated to the separable financial instruments issued in the Initial Public Offering based on a relative fair value basis, compared to total proceeds received. Offering costs associated with derivative warrant liabilities were expensed as incurred and presented as non-operating expenses in the statements of operations. Offering costs associated with the Class A ordinary shares issued were charged against the carrying value of Class A ordinary shares subject to possible redemption upon the completion of the Initial Public Offering. The Company classifies deferred underwriting commissions as non-current liabilities as their liquidation is not reasonably expected to require the use of current assets or require the creation of current liabilities.

*Class A Ordinary Shares Subject to Possible Redemption*

The Company accounts for its Class A ordinary shares subject to possible redemption in accordance with the guidance in ASC 480. Class A ordinary shares subject to mandatory redemption (if any) is classified as liability instruments and are measured at fair value. Conditionally redeemable Class A ordinary shares (including Class A ordinary shares that features redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, Class A ordinary shares is classified as shareholders' equity. The Company's Public Shares feature certain redemption rights that are considered to be outside of the Company's control and subject to the occurrence of uncertain future events. Accordingly, as of December 31, 2022 and 2021, 32,369,251 Class A ordinary shares subject to possible redemption are presented at redemption value as temporary equity, outside of the shareholders' equity section of the Company's balance sheets.

Effective with the closing of the Initial Public Offering (including sale of the Over-Allotment Units), the Company recognized the accretion from initial book value to redemption amount, which resulted in charges against additional paid-in capital (to the extent available) and accumulated deficit.

*Income Taxes*

The Company accounts for income taxes under FASB ASC Topic 740, "Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statement and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company's management determined that the Cayman Islands is the Company's only major tax jurisdiction. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. There were no unrecognized tax benefits and no amounts accrued for interest and penalties as of December 31, 2022 and 2021. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company is considered an exempted Cayman Islands Company and is presently not subject to income taxes or income tax filing requirements in the Cayman Islands or the United States. As such, the Company's tax provision was zero for the period presented. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

*Net Income Per Ordinary Share*

The Company complies with accounting and disclosure requirements of FASB ASC Topic 260, "Earnings Per Share." The Company has two classes of shares, which are referred to as Class A ordinary shares and Class B ordinary shares. Income and losses are shared pro rata between the two classes of shares. Net income per ordinary share is calculated by dividing the net income by the weighted average of ordinary shares outstanding for the respective period.

The calculation of diluted net income per ordinary shares does not consider the effect of the warrants issued in connection with the Initial Public Offering (including sale of the Over-Allotment Units) and the Private Placement to purchase an aggregate of 16,699,626 ordinary shares in the calculation of diluted income per share, because their inclusion would be anti-dilutive under the treasury stock method. As a result, diluted net income per share is the same as basic net income per share for the year ended December 31, 2022 and for the period from January 8, 2021 (inception) through December 31, 2021. Accretion associated with the redeemable Class A ordinary shares is excluded from net income per share as the redemption value approximates fair value.

The following table reflects presents a reconciliation of the numerator and denominator used to compute basic and diluted net income per share of ordinary shares:

| | For the Year Ended December 31, 2022 | | For The Period From January 8, 2021 (Inception) through December 31, 2021 | |
|---|---|---|---|---|
| | Class A | Class A non-redeemable and Class B | Class A | Class A non-redeemable and Class B |
| Basic and diluted net income per ordinary share: | | | | |
| *Numerator:* | | | | |
| Allocation of net income | $ 8,293,646 | $ 2,337,318 | $ 3,739,576 | $ 1,280,996 |
| *Denominator:* | | | | |
| Basic and diluted weighted average ordinary shares outstanding | 32,369,251 | 9,122,313 | 25,579,130 | 8,762,157 |
| Basic and diluted net income per ordinary share | $ 0.26 | $ 0.26 | $ 0.15 | $ 0.15 |

*Recent Accounting Pronouncements*

In August 2020, the FASB issued ASU No. 2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"), which simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. The ASU also removes certain settlement conditions that are required for equity-linked contracts to qualify for the derivative scope exception,

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 2 — Basis of Presentation and Summary of Significant Accounting Policies** (cont.)

and it simplifies the diluted earnings per share calculation in certain areas. The Company adopted ASU 2020-06 on January 8, 2021 (inception). Adoption of the ASU did not impact the Company's financial position, results of operations or cash flows.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

**Note 3 — Initial Public Offering**

On March 23, 2021, the Company consummated its Initial Public Offering of 30,000,000 Units, at $10.00 per Unit, generating gross proceeds of $300.0 million, and incurring underwriting fees and other offering costs of approximately $17.2 million, inclusive of approximately $10.5 million in deferred underwriting commissions.

On April 7, 2021, the underwriter exercised the over-allotment option in part and purchased the Over-Allotment Units, generating gross proceeds of $23,692,510, and 532,687 Founder Shares were subsequently forfeited by the Sponsor.

Each Unit consists of one Class A ordinary share and one-half of one redeemable warrant ("Public Warrant"). Each whole Public Warrant entitles the holder to purchase one Class A ordinary share at an exercise price of $11.50 per share, subject to adjustment (see Note 9).

**Note 4 — Private Placement**

Simultaneously with the closing of the Initial Public Offering, the Company consummated the Private Placement of 1,030,000 Private Placement Units at a price of $10.00 per Private Placement Unit, generating total gross proceeds of $10.3 million.

The proceeds from the sale of the Private Placement Units were added to the net proceeds from the Initial Public Offering held in the Trust Account. If the Company does not complete a Business Combination within the Combination Period, the private placement warrants underlying the Private Placement Units (the "Private Placement Warrants") will expire worthless.

**Note 5 — Related Party Transactions**

***Founder Shares***

On January 22, 2021, the Sponsor paid an aggregate of $25,000 to cover certain offering costs of the Company in consideration for 8,625,000 of the Company's Class B ordinary shares (the "Founder Shares"). The Founder Shares included an aggregate of up to 1,125,000 shares subject to forfeiture by the Sponsor to the extent that the underwriters' over-allotment was not exercised in full or in part, so that the number of Founder Shares would collectively represent 20% of the Company's issued and outstanding shares upon the completion of the Initial Public Offering (excluding the Private Placement Shares). On April 7, 2021, the underwriter exercised its over-allotment option in part, and 532,687 Founder Shares were subsequently forfeited by the Sponsor.

The Sponsor agreed, subject to limited exceptions, not to transfer, assign or sell any of its Founder Shares until the earlier to occur of: (A) one year after the completion of a Business Combination; and (B) subsequent to a Business Combination, (x) if the closing price of the Class A ordinary shares equals or exceeds $12.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 120 days after a Business Combination, or (y) the date on which the Company completes a liquidation, merger, amalgamation, share exchange, reorganization or other similar transaction that results in all of the Company's shareholders having the right to exchange their Class A ordinary shares for cash, securities or other property.

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 5 — Related Party Transactions** (cont.)

***Promissory Note — Related Party***

On January 22, 2021, the Company entered into a promissory note with the Sponsor, pursuant to which the Company could have borrowed up to an aggregate principal amount of $251,000 (the "Note"). The Note was non-interest bearing and payable upon the completion of the Initial Public Offering. The Company borrowed approximately $149,000 under the Note and fully repaid the Note on March 25, 2021.

***Related Party Loans***

In order to finance transaction costs in connection with a Business Combination, the Sponsor or an affiliate of the Sponsor, or certain of the Company's officers and directors may, but are not obligated to, loan the Company funds as may be required ("Working Capital Loans"). Such Working Capital Loans would be evidenced by promissory notes. The notes may be repaid upon completion of a Business Combination, without interest, or, at the lender's discretion, up to $1,500,000 of the notes may be converted upon completion of a Business Combination into private placement-equivalent units at a price of $10.00 per unit. Such units would be identical to the Private Placement Units. In the event that a Business Combination does not close, the Company may use a portion of proceeds held outside the Trust Account to repay the Working Capital Loans, but no proceeds held in the Trust Account would be used to repay the Working Capital Loans. Except for the foregoing, the terms of such Working Capital Loans, if any, have not been determined and no written agreements exist with respect to such loans. As of December 31, 2022 and 2021, the Company had no borrowings under the Working Capital Loans.

***Administrative Services Agreement***

The Company entered into an agreement that provides that, commencing on effective date of the Initial Public Offering, the Company agreed to pay the Sponsor $10,000 per month for office space, utilities, secretarial and administrative support services. Upon completion of a Business Combination or its liquidation, the Company will cease paying these monthly fees. During the year ended December 31, 2022 and the period from January 8, 2021 (inception) through December 31, 2021 the Company incurred $120,000 and $100,000, respectively, of such fees, reported as general and administrative expenses — related party in the accompanying statements of operations. On November 30, 2022, the Company assigned the Administrative Services Agreement, previously entered into by and between the Company and its sponsor, Byte Holdings LP, to Sagara Group, LLC, which is a company controlled by Mr. Gloor. As of December 31, 2022 and 2021, there were $10,000 of such expenses unpaid in accounts payable on the balance sheets.

**Note 6 — Commitments and Contingencies**

***Registration and Shareholder Rights***

The holders of the Founder Shares, Private Placement Units (including the underlying securities) and securities that may be issued upon conversion of the Working Capital Loans were entitled to registration rights pursuant to a registration rights agreement signed upon the effective date of the Initial Public Offering requiring the Company to register a sale of any of the securities held by them, including any other securities of the Company acquired by them prior to the consummation of the Company's initial Business Combination. The holders of these securities were entitled to make up to three demands, excluding short form demands, that the Company register such securities. In addition, the holders have certain "piggy-back" registration rights with respect to registration statements filed subsequent to the completion of a Business Combination. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

***Underwriting Agreement***

The Company granted the underwriters a 45-day option to purchase up to 4,500,000 additional Units to cover over-allotments at the Initial Public Offering price, less the underwriting discounts and commissions. On April 7, 2021, the underwriter exercised the over-allotment option in part and purchased the Over-Allotment Units, generating gross proceeds of $23,692,510.

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 6 — Commitments and Contingencies** (cont.)

The underwriters received a cash underwriting discount of $0.20 per Unit, or $6.5 million in the aggregate, paid upon the closing of the Initial Public Offering and sale of Over-Allotment Units. In addition, the underwriters were entitled to a deferred fee of $0.35 per Unit, or $11.3 million in the aggregate. The deferred fee will become payable to the underwriters from the amounts held in the Trust Account solely in the event that the Company completes a Business Combination, subject to the terms of the underwriting agreement.

**Note 7 — Class A Ordinary Shares Subject to Possible Redemption**

The Company's Public Shares feature certain redemption rights that are considered to be outside of the Company's control and subject to the occurrence of future events. As of December 31, 2022 and 2021, there were 32,369,251 Class A ordinary shares subject to possible redemption and classified outside of permanent equity in the balance sheets.

The Class A ordinary shares subject to possible redemption reflected on the balance sheet is reconciled on the following table:

| | |
|---|---|
| Gross proceeds from Initial Public Offering, including sale of the Over-Allotment Units | $ 323,692,510 |
| Less: | |
| Fair value of Public Warrants at issuance | (15,217,550) |
| Offering costs allocated to Class A ordinary shares subject to possible redemption | (17,636,964) |
| Plus: | |
| Initial accretion on Class A ordinary shares subject to possible redemption amount | 32,854,514 |
| Remeasurement on Class A ordinary shares subject to possible redemption amount | 4,433,922 |
| Class A ordinary shares subject to possible redemption, December 31, 2022 | $ 328,126,432 |

**Note 8 — Shareholders' Deficit**

***Preference Shares*** — The Company is authorized to issue 1,000,000 preference shares with a par value of $0.0001 per share. The Company's board of directors will be authorized to fix the voting rights, if any, designations, powers, preferences, the relative, participating, optional or other special rights and any qualifications, limitations and restrictions thereof, applicable to the shares of each series. The board of directors will be able to, without shareholder approval, issue preferred shares with voting and other rights that could adversely affect the voting power and other rights of the holders of the ordinary shares and could have anti-takeover effects. On December 31, 2022 and 2021, there were no preference shares issued or outstanding.

***Class A Ordinary Shares*** — The Company is authorized to issue 200,000,000 Class A ordinary shares with a par value of $0.0001 per share. Holders of the Company's Class A ordinary shares are entitled to one vote for each share. On December 31, 2022 and 2021, there were 1,030,000 Class A ordinary shares issued or outstanding, excluding 32,369,251 Class A ordinary shares subject to possible redemption, which have been classified as temporary equity (see Note 7).

***Class B Ordinary Shares*** — The Company is authorized to issue 20,000,000 Class B ordinary shares with a par value of $0.0001 per share. Holders of the Class B ordinary shares are entitled to one vote for each share. As of March 31, 2021, there were 8,625,000 Class B ordinary shares issued and outstanding, of which an aggregate of up to 1,125,000 shares were subject to forfeiture to the extent that the underwriters' over-allotment option was not exercised in full or in part so that the number of Founder Shares will equal 20% of the Company's issued and outstanding ordinary shares after the Initial Public Offering (excluding the Private Placement Shares). On April 7, 2021, the underwriter exercised its over-allotment in part, and 532,687 Class B ordinary shares were subsequently forfeited.

Only holders of the Class B ordinary shares will have the right to vote on the election of directors prior to the Business Combination. Holders of Class A ordinary shares and holders of Class B ordinary shares will vote together as a single class on all other matters submitted to a vote of the Company's shareholders except as otherwise required by law.

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 8 — Shareholders' Deficit** (cont.)

The Class B ordinary shares will automatically convert into Class A ordinary shares concurrently with or immediately following the completion of a Business Combination on a one-for-one basis, subject to adjustment. In the case that additional Class A ordinary shares or equity-linked securities are issued or deemed issued in connection with a Business Combination, the number of Class A ordinary shares issuable upon conversion of all Founder Shares will equal, in the aggregate, 20% of the total number of Class A ordinary shares outstanding after such conversion (excluding the private placement shares underlying the private placement units and after giving effect to any redemptions of Class A ordinary shares by public shareholders), including the total number of Class A ordinary shares issued, or deemed issued or issuable upon conversion or exercise of any equity-linked securities or rights issued or deemed issued, by the Company in connection with or in relation to the consummation of a Business Combination, excluding any Class A ordinary shares or equity-linked securities exercisable for or convertible into Class A ordinary shares issued, or to be issued, to any seller in a Business Combination and any private placement-equivalent units issued to the Sponsor, officers or directors upon conversion of Working Capital Loans; provided that such conversion of Founder Shares will never occur on a less than one-for-one basis.

**Note 9 — Warrants**

As of December 31, 2022 and 2021, there were 16,184,626 and 515,000 Public Warrants and Private Placement Warrants, respectively, outstanding.

Public Warrants may only be exercised for a whole number of shares. No fractional warrants will be issued upon separation of the Units and only whole warrants will trade. The Public Warrants will become exercisable 30 days after the completion of a Business Combination. The Public Warrants will expire five years from the completion of a Business Combination, or earlier upon redemption or liquidation.

The Company will not be obligated to deliver any Class A ordinary shares pursuant to the exercise of a Public Warrant and will have no obligation to settle such Public Warrant exercise unless a registration statement under the Securities Act with respect to the Class A ordinary shares underlying the warrants is then effective and a prospectus relating thereto is current, subject to the Company satisfying its obligations with respect to registration. No warrant will be exercisable and the Company will not be obligated to issue a Class A ordinary share upon exercise of a warrant unless the Class A ordinary share issuable upon such warrant exercise has been registered, qualified or deemed to be exempt under the securities laws of the state of residence of the registered holder of the warrants.

The Company is registering the Class A ordinary shares issuable upon exercise of the warrants in the registration statement of which this prospectus forms a part because the warrants will become exercisable 30 days after the completion of its initial business combination, which may be within one year of this offering. However, because the warrants will be exercisable until their expiration date of up to five years after the completion of the Company's initial business combination, in order to comply with the requirements of Section 10(a)(3) of the Securities Act following the consummation of the Company's initial business combination, under the terms of the warrant agreement, the Company agreed that, as soon as practicable, but in no event later than 15 business days, after the closing of its initial business combination, the Company will use its best efforts to file with the SEC a post-effective amendment to the registration statement of which this prospectus forms a part or a new registration statement covering the registration under the Securities Act of the Class A ordinary shares issuable upon exercise of the warrants and thereafter will use its best efforts to cause the same to become effective within 60 business days following its initial business combination and to maintain a current prospectus relating to the Class A ordinary shares issuable upon exercise of the warrants until the expiration of the warrants in accordance with the provisions of the warrant agreement. If a registration statement covering the Class A ordinary shares issuable upon exercise of the warrants is not effective by the 60$^{th}$ business day after the closing of a Business Combination, warrant holders may, until such time as there is an effective registration statement and during any period when the Company will have failed to maintain an effective registration statement, exercise warrants on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act or another exemption. In addition, if the Class A ordinary shares are at the time of any exercise of a warrant not listed on a national securities exchange such that they satisfy the definition of a "covered security" under Section 18(b)(1) of the Securities Act, the Company may, at its option, require holders of the Public Warrants who exercise their warrants to do so on a "cashless

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 9 — Warrants** (cont.)

basis" in accordance with Section 3(a)(9) of the Securities Act and, in the event the Company elects to do so, the Company will not be required to file or maintain in effect a registration statement, but it will use its best efforts to register or qualify the shares under applicable blue sky laws to the extent an exemption is not available.

*Redemption of warrants when the price per Class A ordinary share equals or exceeds $18.00:*

Once the warrants become exercisable, the Company may call the outstanding warrants for redemption (except as described with respect to the Private Placement Warrants):

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon a minimum of 30 days' prior written notice of redemption to each warrant holder; and
- if, and only if, the closing price of the Class A ordinary shares equals or exceeds $18.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within a 30-trading day period ending three business days before the Company sends to the notice of redemption to the warrant holders (the "Reference Value").

If and when the warrants become redeemable by the Company, the Company may exercise its redemption right even if it is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

*Redemption of warrants when the price per Class A ordinary share equals or exceeds $10.00:*

Once the warrants become exercisable, the Company may redeem the outstanding warrants:

- in whole and not in part;
- at a price of $0.10 per Public Warrant;
- upon not less than 30 days' prior written notice of redemption to each warrant holder;
- if, and only if, the Reference Value equals or exceeds $10.00 per Public Share (as adjusted) for any 20 trading days within the 30-trading day period ending three trading days before the Company sends the notice of redemption to the warrant holders; and
- if the Reference Value is less than $18.00 per share (as adjusted), the Private Placement Warrants must also be concurrently called for redemption on the same terms as the outstanding Public Warrants, as described above.

If the Company calls the Public Warrants for redemption, as described above, its management will have the option to require any holder that wishes to exercise the Public Warrants to do so on a "cashless basis," as described in the warrant agreement. The exercise price and number of ordinary shares issuable upon exercise of the Public Warrants may be adjusted in certain circumstances including in the event of a share dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation. However, except as described below, the Public Warrants will not be adjusted for issuances of ordinary shares at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Public Warrants. If the Company is unable to complete a Business Combination within the Combination Period and the Company liquidates the funds held in the Trust Account, holders of Public Warrants will not receive any of such funds with respect to their Public Warrants, nor will they receive any distribution from the Company's assets held outside of the Trust Account with respect to such Public Warrants. Accordingly, the Public Warrants may expire worthless.

In addition, if (x) the Company issues additional Class A ordinary shares or equity-linked securities for capital raising purposes in connection with the closing of a Business Combination at an issue price or effective issue price of less than $9.20 per Class A ordinary share (with such issue price or effective issue price to be determined in good faith

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 9 — Warrants** (cont.)

by the Company's board of directors and, in the case of any such issuance to the Sponsor or its affiliates, without taking into account any Founder Shares held by the Sponsor or such affiliates, as applicable, prior to such issuance) (the "Newly Issued Price"), (y) the aggregate gross proceeds from such issuances represent more than 60% of the total equity proceeds, and interest thereon, available for the funding of a Business Combination, and (z) the volume weighted average trading price of the Class A ordinary shares during the 20 trading day period starting on the trading day prior to the day on which the Company consummates a Business Combination (such price, the "Market Value") is below $9.20 per share, then the exercise price of the warrants will be adjusted (to the nearest cent) to be equal to 115% of the higher of the Market Value and the Newly Issued Price, and the $18.00 per share redemption trigger price will be adjusted (to the nearest cent) to be equal to 180% of the higher of the Market Value and the Newly Issued Price.

The Private Placement Warrants will be identical to the Public Warrants underlying the Units being sold in the Initial Public Offering, except that (x) the Private Placement Warrants and the Class A ordinary shares issuable upon the exercise of the Private Placement Warrants will not be transferable, assignable or salable until 30 days after the completion of a Business Combination, subject to certain limited exceptions, (y) the Private Placement Warrants will be exercisable on a cashless basis and be non-redeemable so long as they are held by the initial purchasers or their permitted transferees and (z) the Private Placement Warrants and the Class A ordinary shares issuable upon exercise of the Private Placement Warrants will be entitled to registration rights. If the Private Placement Warrants are held by someone other than the initial purchasers or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

**Note 10 — Fair Value Measurements**

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2022 and 2021 and indicates the fair value hierarchy of the valuation techniques that the Company utilized to determine such fair value.

| Description | December 31, 2022 Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|
| **Assets:** | | | |
| Investments held in Trust Account – Money market fund | $ 328,226,432 | $ — | $ — |
| **Liabilities:** | | | |
| Derivative warrant liabilities – Public warrants | $ 1,294,770 | $ — | $ — |
| Derivative warrant liabilities – Private placement warrants | $ — | $ 41,280 | $ — |

| Description | December 31, 2021 Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|
| **Assets:** | | | |
| Investments held in Trust Account – Money market fund | $ 323,716,979 | $ — | $ — |
| **Liabilities:** | | | |
| Derivative warrant liabilities – Public warrants | $ 8,582,810 | $ — | $ — |
| Derivative warrant liabilities – Private placement warrants | $ — | $ 271,760 | $ — |

**BYTE ACQUISITION CORP.**
**Notes to Financial Statements**

**Note 10 — Fair Value Measurements** (cont.)

Transfers to/from Levels 1, 2, and 3 are recognized at the beginning of the reporting period. The estimated fair value of the Public Warrants was transferred from a Level 3 measurement to a Level 1 measurement in May 2021, when the Public Warrants were separately listed and traded in an active market. The estimated fair value of the Private Placement Warrants was transferred from a Level 3 measurement to a Level 2 measurement in May 2021, as the key inputs to the valuation model became directly or indirectly observable from the Public Warrants listed price.

The initial estimated fair value of the warrants was measured using a Monte Carlo simulation. The subsequent estimated fair value of the Public Warrants is based on the listed price in an active market for such warrants while the fair value of the Private Placement Warrants continues to be measured using a Monte Carlo simulation, with level 2 inputs. For the year ended December31, 2022 and the period from January 8, 2021 (inception) through December 31, 2021, the Company recognized a gain resulting from changes in the fair value of derivative warrant liabilities of approximately $7.5 million and $6.9 million, which is presented in the accompanying statements of operations, respectively.

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

| | March 23, 2021 | April 7, 2021 |
|---|---|---|
| Exercise price | $ 11.50 | $ 11.50 |
| Share price | $ 9.53 | $ 9.51 |
| Volatility | 15.6% | 15.7% |
| Term | 6.5 | 6.5 |
| Risk-free rate | 1.18% | 1.21% |

The change in the fair value of derivative liabilities, measured using Level 3 inputs, for the period ended December 31, 2021 is summarized as follows:

| | |
|---|---|
| Derivative warrant liabilities at March 23, 2021 (inception) | $ — |
| Issuance of Public and Private Warrants | 14,449,550 |
| Change in fair value of derivative warrant liabilities | 294,850 |
| Derivative warrant liabilities at March 31, 2021 | $ 14,744,400 |
| Issuance of Public Warrants; over-allotment | 1,267,550 |
| Transfer of Public Warrants to Level 1 | (15,517,550) |
| Transfer of Private Placement Warrants to Level 2 | (494,400) |
| Derivative warrant liabilities at December 31, 2021 | $ — |

**Note 11 — Subsequent Events**

The Company has evaluated subsequent events and transactions that occurred up to the date the financial statements were issued. Based upon this review, except as described below, the Company did not identify any other subsequent events that would have required adjustment or disclosure in the financial statements.

On March 8, 2023, the Company entered into non-redemption agreements (collectively, the "Non-Redemption Agreements") with certain of its existing Public Shareholders (the "Non-Redeeming Shareholders"). Pursuant to the Non-Redemption Agreements, each of the Non-Redeeming Shareholders agreed to (a) not redeem 1,000,000 Public Shares held by them on the date of the Non-Redemption Agreements in connection with the vote to amend the Company's Amended and Restated Memorandum and Articles of Association to extend the date by which the Company has to consummate an initial Business Combination from March 23, 2023 to September 25, 2023 (the "Proposed Extension" and such extended date, the "Extended Date") and (b) vote their Public Shares in favor of the Extension presented by the Company for approval by its shareholders. In connection with the foregoing, the Company agreed to pay to each Non-Redeeming Shareholder $0.033 per Share in cash per month through the Extended Date.

**AIRSHIP AI HOLDINGS, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
As of September 30, 2023 and December 31, 2022

| | September 30, 2023 (Unaudited) | December 31, 2022[1] |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 482,373 | $ 298,614 |
| Accounts receivable, net of provision for credit losses of $0 | 600,938 | 705,752 |
| Prepaid expenses and other | 16,334 | 16,039 |
| Payroll and income tax receivable | 7,230 | 967,613 |
| Total current assets | 1,106,875 | 1,988,018 |
| PROPERTY AND EQUIPMENT, NET | 5,580 | 16,740 |
| OTHER ASSETS | | |
| Advances to founders | — | 1,100,000 |
| Other assets | 255,431 | — |
| Operating lease right of use asset | 25,974 | 804,338 |
| TOTAL ASSETS | $ 1,393,860 | $ 3,909,096 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable – trade | $ 592,199 | $ 216,718 |
| Advances from founders | 1,750,000 | 600,000 |
| Accrued expenses | 112,700 | 110,662 |
| Accrued income tax expense | — | 10,000 |
| Current portion of Small Business Loan | — | 292,932 |
| Senior Secured Convertible Promissory Note | 2,385,503 | — |
| Current portion of operating lease liability | 26,844 | 628,371 |
| Deferred revenue- current portion | 4,059,406 | 4,168,016 |
| Total current liabilities | 8,926,652 | 6,026,699 |
| NON-CURRENT LIABILITIES: | | |
| Payable to founders | — | 1,100,000 |
| Small Business Loan- non-current | — | 131,608 |
| Operating lease liability, net of current portion | — | 203,769 |
| Deferred revenue- non-current | 4,693,897 | 4,805,431 |
| Total liabilities | 13,620,549 | 12,267,507 |
| COMMITMENTS AND CONTINGENCIES (Note 11) | | |
| STOCKHOLDERS' DEFICIT: | | |
| Preferred stock – no par value, 20,000,000 shares authorized, 0 shares issued and outstanding as of September 30, 2023 and December 31, 2022 | — | — |
| Common stock – no par value, 180,000,000 shares authorized, 7,614,666 shares issued and outstanding as of September 30, 2023 and December 31, 2022 | 44,666 | 44,666 |
| Additional paid in capital | 4,537,370 | 1,921,342 |
| Accumulated deficit | (16,796,375) | (10,314,313) |
| Accumulated other comprehensive loss | (12,350) | (10,106) |
| Total stockholders' deficit | (12,226,689) | (8,358,411) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 1,393,860 | $ 3,909,096 |

(1) Derived from the audited consolidated balance sheet.

*The accompanying notes are an integral part of these unaudited condensed consolidatedfinancial statements.*

**AIRSHIP AI HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)**
For the nine months ended September 30, 2023 and 2022

| | Nine Months Ended September 30, 2023 (Unaudited) | Nine Months Ended September 30, 2022 (Unaudited) |
|---|---|---|
| NET REVENUES: | | |
| Product | $ 4,415,386 | $ 9,018,837 |
| Post contract support | 3,279,966 | 3,795,242 |
| Other services | 397,619 | 148,161 |
| | 8,092,971 | 12,962,240 |
| COST OF NET REVENUES: | | |
| Product | 2,575,523 | 3,972,296 |
| Post contract support | 1,377,351 | 1,106,986 |
| Other services | 60,559 | 55,074 |
| | 4,013,433 | 5,134,356 |
| GROSS PROFIT | 4,079,538 | 7,827,884 |
| RESEARCH AND DEVELOPMENT EXPENSES | 2,028,081 | 2,731,899 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 8,067,343 | 6,107,009 |
| TOTAL OPERATING EXPENSES | 10,095,424 | 8,838,908 |
| OPERATING LOSS | (6,015,886) | (1,011,024) |
| OTHER INCOME (EXPENSE): | | |
| Interest income | — | 12,528 |
| Interest expense | (57,830) | (3,711) |
| Other (expense) income | (408,346) | 1,146,235 |
| Total other (expense) income, net | (466,176) | 1,155,052 |
| (LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES | (6,482,062) | 144,028 |
| Provision for income taxes | — | — |
| NET (LOSS) INCOME | (6,482,062) | 144,028 |
| OTHER COMPREHENSIVE (LOSS) GAIN: | | |
| Foreign currency translation (loss) gain, net | (2,244) | 17,910 |
| TOTAL COMPREHENSIVE (LOSS) INCOME | $ (6,484,306) | $ 161,938 |
| NET (LOSS) INCOME PER SHARE: | | |
| Basic | $ (0.85) | $ 0.02 |
| Diluted | $ (0.85) | $ 0.01 |
| Weighted average shares of common stock outstanding | 7,614,666 | 7,614,666 |
| Weighted average diluted shares of common stock outstanding | 7,614,666 | 10,423,324 |

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

**AIRSHIP AI HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT**
For the nine months ended September 30, 2023 and 2022 (unaudited)

| | Common Stock | Common Stock $ | Additional Paid in Capital | Accumulated Deficit | Other Comprehensive Income (Loss) | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2022 | 7,614,666 | $ 44,666 | $ 1,374,882 | $ (9,826,820) | $ — | $ (8,407,272) |
| Stock-based compensation | — | — | 447,690 | — | — | 447,690 |
| Foreign currency translation gain | — | — | — | — | 17,910 | 17,910 |
| Net income | — | — | — | 144,028 | — | 144,028 |
| Balance as of September 30, 2022 | 7,614,666 | $ 44,666 | $ 1,822,572 | $ (9,682,792) | $ 17,910 | $ (7,797,644) |
| | | | | | | |
| Balance as of January 1, 2023 | 7,614,666 | $ 44,666 | $ 1,921,342 | $ (10,314,313) | $ (10,106) | $ (8,358,411) |
| Stock-based compensation – stock option grants | — | — | 479,913 | — | — | 479,913 |
| Stock-based compensation – warrants | — | — | 2,136,115 | — | — | 2,136,115 |
| Foreign currency translation loss | — | — | — | — | (2,244) | (2,244) |
| Net loss | — | — | — | (6,482,062) | — | (6,482,062) |
| Balance as of September 30, 2023 | 7,614,666 | $ 44,666 | $ 4,537,370 | $ (16,796,375) | $ (12,350) | $ (12,226,689) |

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

**AIRSHIP AI HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
For the nine months ended September 30, 2023 and 2022

| | Nine Months Ended September 30, 2023 (Unaudited) | Nine Months Ended September 30, 2022 (Unaudited) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | $ (6,482,062) | $ 144,028 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities | | |
| Depreciation and amortization | 11,160 | 11,160 |
| Stock-based compensation- stock option grants | 479,913 | 447,690 |
| Stock-based compensation- warrants | 2,136,115 | — |
| Gain on forgiveness of note payable – PPP | — | (1,141,722) |
| Amortization of operating lease right of use asset | 513,234 | 426,392 |
| Accelerated amortization of ROU asset – lease termination | 265,130 | — |
| Gain from lease termination | (344,093) | — |
| Unrealized loss for fair value of convertible promissory note | 400,921 | — |
| Non cash interest, net | — | (12,667) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 104,814 | (336,232) |
| Prepaid expenses and other | (295) | (3,660) |
| Other assets | (255,431) | — |
| Operating lease liability | (461,203) | (414,690) |
| Payroll and income tax receivable | 960,383 | — |
| Accounts payable – trade and accrued expenses | 377,519 | 761,823 |
| Accrued income tax expense | (10,000) | — |
| Deferred revenue | (220,144) | (566,698) |
| NET CASH USED IN OPERATING ACTIVITIES | (2,524,039) | (684,576) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from convertible promissory note | 1,984,582 | — |
| Advances from founders, net | 1,150,000 | — |
| Repayment of small business loan and line of credit | (424,540) | (35,300) |
| Proceeds from small business loan | — | 500,000 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 2,710,042 | 464,700 |
| | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 186,003 | (219,876) |
| Effect from exchange rate on cash | (2,244) | 17,910 |
| CASH AND CASH EQUIVALENTS, beginning of year | 298,614 | 1,344,922 |
| CASH AND CASH EQUIVALENTS, end of year | $ 482,373 | $ 1,142,956 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | $ 21,438 | $ 27,132 |
| Taxes paid | $ 17,247 | $ 27,057 |
| | | |
| Noncash investing and financing | | |
| Elimination of advances to founders in connection with contribution of Zeppelin by shareholders | $ 1,100,000 | $ — |
| Elimination of payables to founders in connection with contribution of Zeppelin by shareholders | $ 1,100,000 | $ — |
| Issuance of warrants to founders | $ 2,136,115 | $ — |
| Recognition of warrant liability | $ 15,418 | $ — |

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

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization**

On March 7, 2023, the Company changed its name to Airship AI Holdings, Inc. from Super Simple AI, Inc. Airship AI Holdings, Inc. (the "Company" or "Airship") is a holding company that executes business through its wholly owned subsidiary, Airship AI, Inc. Prior to the formation of Super Simple AI, Inc. in 2022, the Company operated as Airship AI, Inc. (formerly known as JDL Digital Systems, Inc.) Super Simple AI, Inc. was formed in January 2022 through a share exchange with JDL Digital System. JDL Digital Systems, Inc. was incorporated under the laws of the State of Washington on June 30, 2003.

The Company has historically enabled government and commercial customers, through a combination of hardware, software, including artificial intelligence ("AI") and service offerings to manage existing and emerging physical security challenges through a secure single-pane-of-glass Common Operational Picture (COP), connecting a wide range of sensors and edge Internet of Things ("IoT") devices across disparate networks, environments, and geographic locations to a single consolidated location.

The Company employed forty seven employees as of September 30, 2023 and is headquartered in Redmond, WA and is supported by a growing team at its Customer Center of Excellence located in Charlotte, NC as of January 2021. The Company employed seven research and development personnel in Taiwan as of September 30, 2023.

The Company's products appeal to customers whose business operations are geographically diverse, providing essential goods and services, requiring physical security solutions that are tailored to their unique physical security requirements. Airship further appeals to customers who want to choose the right tool for the job (or tailor the tool to fit the job), rather than have to operate based on the tools that are commercially available to them.

The Company has historically promoted its goods and services through very select marketing and advertising channels, most of which are closed to the general public and or are limited in their focus to customers specifically looking for solutions in the physical security and video surveillance arena.

The Company's initial software application is now further evolving into an enterprise grade solution addressing a broadened data management lifecycle, starting at the edge. Edge Cloud Computing is being increasingly viewed as a key enabler and technology necessity.

During 2020, the Company's two main owners started a new business, Zeppelin Worldwide, Inc. and its subsidiary, Zeppelin Taiwan, Ltd. (together "Zeppelin"). Zeppelin's focus is on the development of cloud-based products. Zeppelin was considered a variable interest entity (VIE) and is consolidated with the Company. On February 28, 2023, the Founders transferred their interest in Zeppelin to the Company and Zeppelin became a wholly owned subsidiary. The transaction had no impact on the unaudited consolidated financial statements for the nine months ended September 30, 2023 other than $1.1 million Advance to Founders and the $1.1 million Payable to Founders are now eliminated

**Business Combination with BYTE Acquisition Corp. ("BYTE")**

On March 10, 2023, BYTE issued a press release announcing that it has entered into a non-binding letter of intent for a business combination with Airship AI Holdings, Inc. Airship AI, a robust AI-driven edge video, sensor and data management platform for government agencies and enterprises that gathers unstructured data from surveillance cameras and sensors, applies artificial intelligence ("AI") analytics, and provides visualization tools to improve decision making in mission critical environments. Under the terms of the LOI, BYTE and Airship AI would become a combined entity, with Airship AI's existing equity holders rolling 100% of their equity into the combined public company.

On June 27, 2023, BYTE Acquisition Corp. ("BYTS" or "Parent"), a Cayman Islands exempted company (which shall de-register from the Register of Companies in the Cayman Islands by way of continuation out of the Cayman Islands and into the State of Delaware so as to migrate to and domesticate as a Delaware corporation prior to the Closing Date, entered into a merger agreement, by and among BYTS, BYTE Merger Sub Inc., a Washington corporation and a direct, wholly owned subsidiary of BYTS ("Merger Sub"), and Airship AI Holdings, Inc., a Washington corporation ("Airship AI" or the "Company") (as it may be amended and/or restated from time to time, the "Merger Agreement").

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization** (cont.)

The Merger Agreement provides that, among other things and upon the terms and subject to the conditions thereof, following the Domestication to a Delaware corporation, the Merger Sub will merge with and into Airship AI (the "Merger"), after which Airship AI will be the surviving corporation (the "Surviving Corporation") and a wholly-owned subsidiary of BYTS. The transactions contemplated by the Merger Agreement together with the other related agreements are referred to herein as the "Business Combination." The time of the closing of the Business Combination is referred to herein as the "Closing." The date of the Closing is referred to herein as the "Closing Date." In connection with the Business Combination, BYTS will be renamed "Airship AI Holdings, Inc." ("Airship Pubco"). The Merger will become effective upon the filing of the articles of merger with the Secretary of State of the State of Washington or at such later time as is agreed to by the parties to the Merger Agreement and specified in the articles of merger.

Pursuant to the Business Combination Agreement, BYTE will acquire Airship AI for a pre-money equity value of $225 million. In connection with the transaction, BYTE will issue 22.5 million newly issued shares to current shareholders of Airship AI. Equity holders of Airship AI as of the date of the business combination agreement may also receive the contingent right to receive up to 5 million additional shares, subject to Airship AI's achievement of performance milestones. BYTE has executed non-redemption agreements totaling $7 million. The Company is expected to receive $2 million net of merger transaction expenses from the non-redemption agreements. There are no assurances that this transaction will close.

***Liquidity, Going Concern and Management's Plans***

As reflected in the accompanying unaudited consolidated financial statements, as of and for the nine months ended September 30, 2023, the following conditions were noted that raise substantial doubt about the Company's ability to continue as a going concern:

- For the nine months ended September 30, 2023, incurred a net loss of $6,482,062 and utilized cash in operations of $2,524,039
- Cash balance of $482,373
- Stockholders' deficit of $12,226,689

The Company incurred significant costs on research and development during 2020 to 2022 to develop the AI platform. The investment in product development has produced an industry leading technology and increased business opportunities during 2023.

During the year ended December 31, 2022, Mr. Huang and Mr. Xu advanced Airship AI $1,900,000 and were repaid $1,300,000, with $600,000 recorded as advances from founders as of December 31, 2022. In the nine months ended September 30, 2023, Mr. Huang and Mr. Xu advanced Airship AI $ 1,350,000 and were repaid $200,000, with $1,750,000 recorded as advances from founders as of September 30, 2023.

Management's Plan

Management implemented a multipart plan ("the Plan") to return the Company to profitability and to alleviate any substantial doubt regarding the Company's ability to continue as going concern for the next twelve months. The Plan consisted of the following:

Annual operating expenses were reduced from $13.1 million per year to the current run rate of $10.2 million per year, primarily resulting from the reduction in workforce. In addition, the Company exited its Redmond facility on September 30, 2023 at an annual savings of $350,000 per year.

The Company is experiencing growth from existing and new customers in order opportunities, including those from its AI product platform and those from long standing customers such as Federal Express. The Company also recently received purchase orders from various government agency customers totaling over $13 million from which

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization** (cont.)

the Company expects to start receiving cash in the fourth quarter of 2023. The Company also has a robust potential order pipeline that goes into 2024. Supply chain issues have been mostly resolved and product delivery time has been reduced by almost 50% over the prior few years. The improved supply chain situation allows the Company to convert orders more quickly to cash.

On June 22, 2023, the Company entered into a Senior Secured Convertible Promissory Note with Platinum Capital Partners Inc. and received $2 million. As a condition of funding, the Company paid off three small notes and accounts payable totaling $374,000. See Note 13 for discussion of additional $600,000 convertible promissory note entered into subsequent to September 30, 2023.

On June 27, 2023, the Company entered into a merger agreement with BYTE Acquisition Corp, (NASDAQ: BYTS) a special purpose acquisition corporation ("BYTE"). The Merger will become effective upon the filing of the articles of merger with the Secretary of State of the State of Washington or at such later time as is agreed to by the parties to the Merger Agreement and specified in the articles of merger. Upon completion of the merger agreement with BYTE, the Company will become a publicly traded company. BYTE has executed non-redemption agreements totaling $7 million. The Company is expected to receive $2 million net of merger transaction expenses from the non-redemption agreements.

Mr. Huang has committed to providing $2.5 million in additional temporary funding if it is necessary.

Based on the Company's actions undertaken during 2023, the Company believes that the substantial doubt of the Company's ability to continue as a going concern for 12 months from the date of issuance of these unaudited consolidated financial statements has been alleviated.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and Zeppelin. Intercompany accounts and transactions have been eliminated. The preparation of these consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

***Functional Currency***

The Company's consolidated functional currency is the U.S. Dollar. The operations of Zeppelin use the Taiwan Dollar as its functional currency. At each period end, Zeppelin's balance sheet is translated into U.S. Dollars based upon the period end exchange rate, while their statements of operations and comprehensive loss and statements of cash flows are translated into U.S. Dollars based upon an average exchange rate during the period.

***Consolidation of Variable Interest Entities***

A VIE is a legal entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. The Company's variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets.

A VIE is consolidated by its primary beneficiary, the party that has both the power to direct the activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The Company consolidates a VIE when it is deemed to be the primary beneficiary. The Company assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis. As of December 31, 2022 the Company is considered to be the primary beneficiary of Zeppelin. On February 28, 2023, the Founders transferred their interest in Zeppelin to the Company and Zeppelin became a wholly owned subsidiary.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Cash and Cash Equivalents***

The Company classifies highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. The Company maintains cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to $250,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit.

***Revenue Recognition and Deferred Revenue***

The Company primarily generates revenue from sales of systems and products and the related post contract support to customers. The Company's primary systems and products include Outpost AI, Acropolis and Airship Command. To date, the majority of the Company's product revenue that has been recognized consists primarily of a bundled offering of hardware and software which delivers on premise solutions to its customers. Separate limited software subscription services have been delivered to customers including those customers that are able to operate in a cloud based environment. The transaction price recognized as revenue represents the amount the Company expects to be entitled to and is primarily comprised of product revenue, net of returns and variable consideration, including sales incentives provided to customers. Payment is typically due within 30 to 90 calendar days of the invoice date.

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Company satisfies a performance obligation, as further described below.

***Product Revenue***

Product revenue is derived primarily from sales of the Company's system offerings, Outpost AI, Acropolis and Airship Command. The Company recognizes product revenue at a point in time when title transfers, when the products are shipped, or when control of the system is transferred to the customer, which usually is upon delivery of the system and when contractual performance obligations have been satisfied.

***Post Contract Support Revenue***

Post Contract Support ("PCS") revenue is derived primarily from the Company's support and software maintenance agreements ("SMA"). The Company's PCS includes the right to receive, on a when and if available basis, future unspecified firmware upgrades and features as well as bug fixes, and email and telephone support. The Company allocates a portion of the transaction price to the PCS performance obligation based on a cost-plus methodology and recognizes the associated revenue on a straight-line basis over the estimated term of the support period. The Company's support contracts are typically one to five years with an average of four years, payment is due within 30 to 90 calendars days of the invoice date and may include options to renew. For the nine months ended September 30, 2023 and 2022, the Company recognized revenue of $51,975 and $55,602, respectively, related to one-year support contracts. For the nine months ended September 30, 2023 and 2022, the Company recognized revenue of $3,279,966 and $3,795,242, respectively, related to multi-year support contracts.

***Other Services***

The Company earns other service revenues from installation services, training and licensing which are short-term in nature and revenue for these services are recognized at the time of performance when the service is provided.

***Contracts with Multiple Performance Obligations***

The Company's contracts with customers often contain multiple performance obligations that can include three separate obligations: (i) a hardware component (which may be bundled with hardware accessories) and the embedded firmware essential to the functionality of the hardware component delivered at the time of sale; (ii) the right to the

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

Company's downloadable free application and software solutions, and (iii) the right for the customer to receive post contract support ("PCS") after the initial sale. The Company's products and PCS offerings have significant standalone functionalities and capabilities. Accordingly, the products are distinct from the Company's PCS services as customers can benefit from the products without the PCS services and such PCS services are separately identifiable within the contracts. The Company accounts for multiple agreements with a single customer as a single contract if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract. The amount of consideration the Company expects to receive in exchange for delivering on the contract is allocated to each performance obligation based on its relative standalone selling price.

The Company establishes the standalone selling price using the prices charged for a deliverable when sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price based on its pricing model and offering type (products or PCS services).

The Company has elected the practical expedient to not assess whether a contract has a significant financing component as the Company's standard payment terms are less than one year.

The Company sells its products primarily through a direct sales force. The Company considers revenue to be earned when all of the following criteria are met:

- The Company has a contract with a customer that creates enforceable rights and obligations,
- Promised performance obligations are identified,
- The transaction price, or the amount the Company expects to receive, is determinable and
- The Company has satisfied the performance obligations to the customer.

Transfer of control is evidenced upon passage of title and risk of loss to the customer unless the Company is required to provide additional services.

The Company's short-term and long-term deferred revenue balances totaled $4,059,406 and $4,693,897 as of September 30, 2023. The Company's short-term and long-term deferred revenue balances totaled $4,168,016 and $4,805,431 as of December 31, 2022. Of the deferred revenue balance of $8,973,447 and $9,888,275 as of January 1, 2023 and 2022, the Company recognized approximately $3,262,697 and $3,515,745 during the nine months ended September 30, 2023 and 2022.

***Accounts Receivable and Provision for Credit Losses***

The Company generally sells its products to large governmental entities and large corporations in the United States. Accounts receivable are recorded at invoiced amounts and are non-interest bearing.

The Company adopted Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments — Credit Losses (codified as Accounting Standards Codification ("ASC") 326) on January 1, 2023. ASC 326 adds to U.S. GAAP the current expected credit loss ("CECL") model, a measurement model based on expected losses rather than incurred losses. Prior to the adoption of ASC 326, the Company evaluated receivables regularly and adjusted the allowance for doubtful accounts accordingly. The Company determined estimates of uncollectible accounts receivable based primarily on actual historical bad debt and sales return trends, customers financial condition and general economic conditions. Under the application of ASC 326, the Company's historical credit loss experience provides the basis for the estimation of expected credit losses, as well as current economic and business conditions, and anticipated future economic events that may impact collectability. In developing its expected credit loss estimate, the Company evaluated the appropriate grouping of financial assets based upon its evaluation of risk characteristics, including consideration of the types of products and services sold. Account balances are written off against the allowance for expected credit losses after all means of collection have been exhausted and the potential for recovery is considered remote.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

Occasionally certain long-standing customers, who routinely place large orders, will have unusually large receivables balances relative to the total gross receivables. Management monitors the payments for these large balances closely and very often requires payment of existing invoices before shipping new sales orders. As of September 30, 2023 and December 31, 2022, the Company did not have a reserve for credit losses as all accounts receivable are considered collectible.

***Concentration of Credit and Sales Risk***

The Company sells its product to commercial and government customers under agreements that are normally paid within 30 days of contract completion. For the nine months ended September 30, 2023, two customers represented 50% and 16% of total revenue. For the year ended December 31, 2022, two customers represented28% and 17% of total revenue. As of September 30, 2023, three customers represent approximately 37%, 28% and 20% of outstanding accounts receivable. As of December 31, 2022, four customers represent approximately 42%, 19%, 14% and 10% of outstanding accounts receivable. Due to the quality of the Company's customers and timely payments received, customer credit risk in accounts receivable is minimal.

***Inventory***

The Company's purchase of inventory, primarily computer servers, is undertaken to match purchase orders received from customers. Upon receipt of inventory, the Company generally configures the servers and loads proprietary software onto the servers before shipping out. The Company holds inventory for a short period of time and as of September 30, 2023 and December 31, 2022, it had no inventory in stock. Inventory value is primarily material costs and is valued at the lower of cost (first in, first out method) or net realizable value.

***Property and Equipment***

Property and Equipment consists of vehicles, which are stated at cost less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives or lease period of the relevant asset. Computer equipment is expensed to research and development or selling, general and administrative expense and any furniture and computer equipment is either fully depreciated or immaterial to the consolidated financial statements.

***Long-Lived Assets***

The Company reviews its long-lived assets for impairment annually or when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets under certain circumstances are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value (less the projected cost associated with selling the asset). To the extent carrying values exceed fair values, an impairment loss is recognized in operating results. The Company recorded impairment losses of $0 for the nine months ended September 30, 2023 and 2022.

***Research and Development Expenses***

Research and development expenses consist of the cost of employees, consultants and contractors who design, engineer and develop new products and processes as well as materials, supplies and facilities used in producing prototypes.

The Company's current research and development efforts are primarily focused on improving the Company's products. The Company is also actively involved in identifying new applications. The Company's current internal team along with outside consultants has considerable experience working with the application of the Company's technologies and their applications. The Company engages third party experts as required to supplement the Company's internal team. The Company believes that continued development of new and enhanced technologies is essential to the Company's future success. The Company incurred expenses of $2,028,821 and $2,731,899 for the nine months ended September 30, 2023 and 2022, respectively, on development activities.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Software Development Costs***

Costs incurred in the development of software programs for the Company's products are charged to operations as incurred until technological feasibility of the software has been established. Generally, technological feasibility is established when the software module performs its primary functions described in its original specifications, contains features required for it to be usable in a production environment, is completely documented and the related hardware portion of the product is complete. After technological feasibility is established, any additional costs are capitalized. Capitalization of software costs ceases when the software is substantially complete and is ready for its intended use. No software development costs have been capitalized as of September 30, 2023 or December 31, 2022.

***Cost of Net Revenues***

Cost of net revenues for products includes components and freight. Cost of net revenues for post contract support and other services includes primarily the cost of personnel and personnel-related expenses to conduct implementations and ongoing client support.

***Advertising***

Advertising costs are charged to selling, general and administrative expenses as incurred. Advertising and marketing costs for the nine months ended September 30, 2023 and 2022 were $55,916 and $69,975, respectively.

***Shipping and Handling of Products***

Amounts billed to customers for shipping and handling of products are included in net revenues. Costs incurred related to shipping and handling of products are included in cost of revenues.

***Fair Value Measurements***

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

*Level 1* — Quoted prices in active markets for identical assets and liabilities;
*Level 2* — Inputs other than level one inputs that are either directly or indirectly observable; and
*Level 3* — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The recorded value of other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses approximate the fair value of the respective assets and liabilities as of September 30, 2023 and December 31, 2022 are based upon the short-term nature of the assets and liabilities. The Company recorded its Senior Secured Convertible Promissory Note and the warrants that were issued with this Note at fair value, remeasured on a recurring basis and considered as Level 3 instruments. The method of determining the fair value of the Senior Secured Convertible Promissory Note and warrants are described below.

***Accounting for Warrants and Senior Secured Convertible Promissory Note at Fair Value***

The Company classifies as liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

The Company assessed the classification of warrants issued in connection with convertible note financing as of September 30, 2023. The warrants are considered freestanding instruments that qualify as liabilities under ASC Topic 480, Distinguishing Liabilities from Equity, as the Company is committed to issue an instrument that ultimately may require a transfer of assets. The warrant liability is accounted for at fair value and re-measured at each reporting date. Accordingly, the Company classified the warrants as a liability at their fair value and adjusts the instruments to fair value at each balance sheet date until the warrants are exercised or expired. Any change in the fair value of the warrants is recognized as "change in the fair value of warrants" in the Consolidated Statements of Operations and Comprehensive Loss. The warrants were initially valued using a Black-Scholes Model at $15,418 based on the exercise price of $23.18, stock price per share of $2.88, a five-year expected term, volatility of 39.4% and risk-free rate of 3.41%. There was no significant change in fair value during the quarter ended September 30, 2023 as the warrants were initially valued on June 22, 2023.

The Company has elected the fair value option to account for the Senior Secured Convertible Note that was issued on June 22, 2023 and record this at fair value with changes in fair value recorded in the Consolidated Statements of Operations and Comprehensive Loss. As a result of applying the fair value option, direct costs and fees related to this Note are recognized in earnings as incurred and not deferred. Values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the liability. Considerable judgment is necessary to interpret market data and determine an estimated fair value. The use of different market assumptions or valuation methods may have a material effect on the estimated fair values. As of September 30, 2023, the Company has used a Monte Carlo simulation pricing model that factors in potential outcomes including the SPAC transaction being consummated, the convertible note being repaid in cash and the convertible to be converted to common stock. All of these scenarios take into consideration the terms and conditions of the underlying convertible note plus potential changes in the underlying value of the common stock. For the nine months ended September 30, 2023, the Company recognized an unrealized loss of $400,921 for the change in fair value and is included in "other (expense) income" in the Consolidated Statements of Operations and Comprehensive Loss. The Company believes accounting for the Senior Secured Convertible Note at fair value better aligns the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility.

***Stock-Based Compensation***

The Company has share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, stock appreciation rights, incentive stock options, nonqualified stock option and warrants to purchase shares of Company common stock at the fair market value at the time of grant. Stock-based compensation cost is measured by the Company at the grant date and the fair value of the award is recognized as an expense, over the requisite service period which is generally the vesting period.

***Income Taxes***

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The Company's ability to realize deferred tax assets depends upon future taxable income, as well as the limitations discussed below. For financial reporting purposes, a deferred tax asset must be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized prior to expiration. The Company considers historical and future taxable income, future reversals of existing taxable temporary differences, taxable income in prior carryback years, and ongoing tax planning strategies in assessing the need for valuation.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Advances due to Founders and Advances due from Founders***

The Company accounts for advances made to founders as a contra equity balance unless payment has been received subsequent to period end or such amounts can be offset with amounts due to the Founders. As of December 31, 2022 the Company has $1,100,000 of advances due from the Founders and advances due to the Founders. The transactions were entered into separately by Airship and Zeppelin and thus are reported separately on the accompanying consolidated balance sheets. In February, 2023 these balances were eliminated in a transaction involving the shareholders. See Note 3.

During the year ended December 31, 2022, Mr. Huang and Mr. Xu advanced Airship AI $ 1,900,000 and were repaid $1,300,000, with $600,000 recorded as advances from founders as of December 31, 2022. In the nine months ended September 30, 2023, Mr. Huang and Mr. Xu advanced Airship AI $ 1,350,000 and were repaid $200,000, with $1,750,000 recorded as advances from founders as of September 30, 2023. The advances are noninterest bearing and the Company expects to pay the balance off within a one year period.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is defined as the change in equity of a business during a period from non-owner sources. There was other comprehensive loss of $2,244 and a comprehensive income of $17,910 related foreign exchange translation for the nine months ended September 30, 2023 and 2022.

***Going Concern Assessment***

The Company applies Accounting Standards Codification 205-40 (“ASC 205-40”), *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, which the Financial Accounting Standards Board (“FASB”) issued to provide guidance on determining when and how reporting companies must disclose going concern uncertainties in their consolidated financial statements. ASC 205-40 requires management to perform assessments of an entity’s ability to continue as a going concern within one year of the date of issuance of the entity’s consolidated financial statements (or within one year after the date on which the consolidated financial statements are available to be issued, when applicable). Further, a company must provide certain disclosures if there is “substantial doubt about the entity’s ability to continue as a going concern” and management plans to alleviate the going concern.

***Use of Estimates***

In preparing these consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions included in the Company’s consolidated financial statements relate to the calculation of revenue recognition, stock-based compensation, valuation of common stock, valuation of Senior Secured Convertible Note, accruals for potential liabilities including income taxes, valuation of deferred tax assets and valuation assumptions related to share-based compensation.

***Earnings (loss) Per Share***

Basic earnings (loss) per share is based upon the net (loss) income for the period divided by the weighted average shares of common stock outstanding. Diluted net income per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, warrants, and stock appreciation rights) outstanding during the period using the treasury stock method. Common stock equivalents for period ended September 30, 2022 are not included in the calculation of diluted earnings (loss) per share given the Company incurred a loss and they are anti-dilutive.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Reportable Segments***

Management monitors the revenue and expense components of the various products and services the Company offers, but operations are managed and financial performance is evaluated on a Corporation-wide basis in comparison to a business plan which is developed each year. Accordingly, all operations are considered by management to be one operating segment and one reportable segment as contained in the Consolidated Statements of Operations and Comprehensive Loss to the consolidated financial statements.

***Recent Accounting Pronouncements***

Based on the Company's review of accounting standard updates recently issued (other than ASU No. 2020-06 discussed below), those standards not yet required to be adopted and proposed standards for the future, the Company does believe such items are expected to have a significant impact on the Company's consolidated financial statements. See Note 11 for discussion about adoption of the new lease accounting standard effective January 1, 2022.

In August 2020, the FASB issued ASU No. 2020-06, "Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in entity's Own Equity (Subtopic 815-40)." ASU 2020-06 simplifies the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. ASU 2020-06 generally eliminates the need to separate and value beneficial conversion and redemption features. The ASU is effective for public entities for fiscal years beginning after December 15, 2021. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company adopted ASU 2020-06 during 2023 when the Company issued a convertible promissory note in June of 2023.

In June 2016, the FASB issued ASU 2016-13. This ASU requires the measurement of all expected credit losses for financial assets, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance was initially effective for the Company for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. In November 2019, the FASB issued ASU 2019-10, "Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates," which, among other things, defers the effective date of ASU 2016-13 for public filers that are considered smaller reporting companies as defined by the SEC to fiscal years beginning after December 15, 2022, including interim periods within those years. Early adoption is permitted. The Company adopted ASU 2016-03 on January 1, 2023, and the adoption of this update did not have a material impact on the Company's condensed consolidated financial statements.

**3. Advances due to and from Founders and Transactions with Zeppelin Worldwide LLC**

In 2020, Victor Huang and Derek Xu, the Founders, officers and directors of the Company, borrowed $3,000,000 ("shareholder advances") from Airship. As of December 31, 2022 the Company was owed $1,100,000 by the Founders. Due to the lack of certainty over the payment of interest, the Company will record when received. Due to the uncertainty of the timing of payment, the advances will be treated as a long-term asset. The shareholders advances bear interest at 5% and during the nine months ended September 30, 2023 and 2022 no interest was paid. On February 28, 2023, the Founders transferred their interest in Zeppelin to the Company and the $1,100,000 owed by the Founders to the Company was eliminated.

As of December 31, 2022, Zeppelin had received from the Company $1,095,000 in cash advances to fund operations which commenced in 2021. These advances between the companies are eliminated in the consolidated balance sheet. As of December 31, 2022 Zeppelin owes the Founders $1,100,000 for funds they have provided for the commencement of operations in 2021. The balance was not expected to be paid in the next year and was treated as long term liabilities. On February 28, 2023 in connection with the transfer of the Zeppelin ownership from the shareholders to the Company, the $1,100,000 Payable to the founders was eliminated.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**3. Advances due to and from Founders and Transactions with Zeppelin Worldwide LLC**(cont.)

As of December 31, 2022, Zeppelin had approximately $73,000 in assets which is primarily cash, and accrued liabilities of approximately $60,000. As of December 31, 2022, the Zeppelin liability to the Company and shareholders for advances total $2,254,000. Zeppelin advances from the Company at December 31, 2022 totaling approximately $1,150,000 are eliminated in consolidation. As of December 31, 2022 the Zeppelin stockholder's deficit totaled approximately $2,181,000.

During the year ended December 31, 2022, Mr. Huang and Mr. Xu advanced Airship AI $ 1,900,000 and were repaid $1,300,000, with $600,000 recorded as advances from founders as of December 31, 2022. In the nine months ended September 30, 2023, Mr. Huang and Mr. Xu advanced Airship AI $ 1,350,000 and were repaid $200,000, with $1,750,000 recorded as advances from founders as of September 30, 2023. The advances are noninterest bearing and the Company expects to pay the balance off within a one year period.

Mr. Huang and Mr. Xu originally owned all the Zeppelin membership units. When Zeppelin started, their intent was exploring the technology in-development and determine value for external customers by providing cloud based back-end products. After a period of time for Zeppelin's development it became apparent these efforts would be of value and accretive to the Company. In 2022, the Company began utilizing Zeppelin's research and development personnel to develop the Company's products. On February 28, 2023, the Founders transferred their interest in Zeppelin to the Company.

**4. Property and Equipment, Net**

Property and equipment, net as of September 30, 2023 and December 31, 2022 was comprised of the following:

| | Estimated Useful Lives | September 30, 2023 | December 31, 2022 |
|---|---|---|---|
| Vehicles | 5 years | $ 74,398 | $ 199,502 |
| Less: accumulated depreciation | | (68,818) | (182,762) |
| | | $ 5,580 | $ 16,740 |

Total depreciation expense was $11,160 for the nine months ended September 30, 2023 and 2022. During the nine months ended September 30, 2023, the Company retired fully depreciated assets with a cost basis of $125,104. All equipment is used for selling, general and administrative purposes and accordingly all depreciation is classified in selling, general and administrative expenses.

**5. Revenues**

***Disaggregation of Revenue***

The Company's net revenues in for the nine months ended September 30, 2023 and 2022 consisted of approximately $4.4 million and $9 million of hardware and software bundled systems for which revenue is transferred at a point in time. The Company's remaining net revenue of approximately $3.7 million and $3.9 million relates to PCS revenue and other services which are transferred over time. Within each product category, contract terms, conditions and economic factors affecting the nature, amount, timing, and uncertainty around revenue recognition and cash flow are substantially similar.

***Contract Balances***

A receivable is recognized in the period the Company delivers goods or provides services or when the Company's right to consideration is unconditional. The Company usually does not record contract assets because the Company has an unconditional right to payment upon satisfaction of the performance obligation, and therefore, a receivable is more commonly recorded than a contract asset. Receivables are generally paid within thirty days and there is no financing element to the customer contracts. As of September 30, 2023 and December 31, 2022, there are no unbilled receivable balances.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**5. Revenues** (cont.)

Contract liabilities include payments received in advance of performance under a contract and are satisfied as the associated revenue is recognized. Contract liabilities are reported on the consolidated balance sheets at the end of each reporting period as a component of deferred revenue. The Company's short-term and long-term deferred revenue balances totaled $4,059,406 and $4,693,897 as of September 30, 2023. The Company's short-term and long-term deferred revenue balances totaled $4,168,016 and $4,805,431 as of December 31, 2022. Of the deferred revenue balance of $8,973,447 and $9,888,275 as of January 1, 2023 and 2022, the Company recognized $3,262,697 and $3,515,745.

***Remaining Performance Obligations***

As of September 30, 2023, the Company had approximately $8.8 million of remaining performance obligations, which were comprised of deferred service contracts not yet delivered. The Company expects to recognize approximately 14% of its remaining performance obligations as revenue in fiscal 2023 and the remaining 86% in fiscal 2024 and years thereafter.

***Costs to Obtain or Fulfill a Contract***

The Company does not pay any material variable compensation to obtain a customer contract. Additionally, the majority of the Company's cost of fulfillment as a seller of products is classified as inventory and then cost of revenue when the product is sold. Other costs of contract fulfillment such as software maintenance are expensed in the period incurred and align with when the revenue is amortized.

**6. Notes Payable, Line of Credit and Convertible Notes Payable**

On January 25, 2021, the Company received $1,131,878 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). The Note Payable bears interest at 1% and is due January 23, 2026. The Company accrued interest of $9,845 as of December 31, 2021. The Company has used the funds in accordance with the legal requirements and has applied for forgiveness. No payments are due unless the Company receives notification that their application for forgiveness is not approved at which time monthly payments through January 2026 would be required to repay the balance. In May 2022, the entire unpaid balance was forgiven and approximately $1,146,000 recognized as other income.

On July 8, 2022, the Company entered into a Business Loan with Funding Circle of Denver, Colorado for $500,000.The Company received $480,050. The $500,000 plus interest at 6.99% is being repaid at $22,384 per month over twenty-four months. The Business Loan is secured by the assets of the Company and is guaranteed by the founders. The balance as of September 30, 2023 and December 31, 2022 was $0 and $424,540, respectively. As of December 31 2022, $292,932 was due in 2023 and $131,608 in 2024. The Company recorded interest expense of $5,064 and $0 during the nine months ended September 30, 2023 and 2022. On June 21, 2023, the Company paid the remaining balance of $256,541 to pay off the Loan.

The Company had an $85,000 revolving line of credit agreement with no stated expiration date. The Company owed $0 as of September 30, 2023 and December 31, 2022. The line of credit totaling $85,300 was paid off on June 20, 2023 and was terminated.

On June 22, 2023, the Company issued a $2,000,000 senior secured convertible promissory note to Platinum Capital Partner, Inc. As a condition of funding, the Company paid off three small notes and accounts payable totaling $374,000. At the option of the holder, the note is convertible into cash, common stock or a combination of cash and stock. The conversion into the Company's zero par value common stock is $23.18 per share. The repayment amount of the note is 110% ($2,200,000) and matures on June 22, 2024. The number of common shares issuable equals 94,909 if fully converted into common stock, excluding interest. Interest on the note is 6% per annum calculated on 360 days.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**6. Notes Payable, Line of Credit and Convertible Notes Payable** (cont.)

In the event the BYTE merger has not closed by December 22, 2023, then on not less than thirty days written notice to the Company by the holder thereafter, the holder may put this note to the Company and the Company will pay the holder 110% of the unpaid principal amount of the note together with any unpaid accrued interest and any other amount payable.

If, at any time while the note is outstanding, the effective time of the merger between BYTE and the Company pursuant to the Business Combination Agreement dated on June 22, 2023 occurs, then, any subsequent conversion of the note, the holder has the right to receive, for each conversion share that would had been issuable upon conversion immediately prior to the of the BYTE merger, at the option of the holder, the same kind of securities, cash or property as it would have been entitled to receive on the occurrence of the BYTE merger if it had been, immediately prior to the BYTE merger, the holder of one share of common stock ("BYTE alternate consideration"). The BYTE alternate consideration conversion price for purposes of any conversion following the BYTE merger, the conversion price will be the lower of (A) $6.50 for each unit and (B) 65% of the volume weighted average price for the BYTE alternate consideration for the preceding five trading days immediately prior to any conversion by the holder, but (C) in no event will the conversion price be below $4.00, subject to anti-dilution provisions.

If, at any time while this note is outstanding but prior to the BYTE merger, the Company effects a fundamental transaction, then, any subsequent conversion of this note, the holder will have the right to receive, for each conversion share that would have been issuable upon conversion immediately prior to the occurrence of a fundamental transaction, at the option of the holder, the capital stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of a fundamental transaction by a holder of the number of shares of common stock for which this note is exercisable immediately prior to a fundamental transaction. For purposes of any conversion following a fundamental transaction, the determination of the conversion price will be the lower of (A) the conversion price then in effect immediately prior to the fundamental transaction for each unit or share of alternate consideration, and (B) 65% of the value of the alternate consideration paid on one share of common stock in the fundamental transaction.

If at any time while this note is outstanding but prior to the BYTE merger, the Company engages in a Next Equity Financing, then the conversion price will be adjusted to the lower of (A) the conversion price after giving effect to the Next Equity Financing on the anti-dilution provisions or (B) sixty-five percent (65%) of the Next Equity Financing price.

The Company accounts for the note under the fair value method of accounting and as of September 30, 2023 the note is recorded at $2,385,503. During the period ended September 30, 2023, the Company recorded an increase in the fair value of the convertible note payable totaling approximately $400,000 which was recorded as a loss in other income (expense) on the statement of operations and comprehensive loss. In connection with the convertible note transaction, the Company issued warrants to purchase 30,201 shares of common stock with an exercise price of $6.50 upon the conclusion of the BYTE merger. The value of the warrants totaled $15,418 and reduced the fair value of the convertible promissory note.

**7. Stockholders' Deficit**

The Company amended and restated its articles of incorporation in April 2022 and has authorized 200,000,000 shares of capital stock, of which 180,000,000 are shares of voting common stock, no par value per share and 20,000,000 shares of preferred stock. As of September 30, 2023 and December 31, 2022, the Company had 7,614,666 shares of common stock issued and outstanding. No shares of preferred stock are outstanding. Each share of common stock titles its holder to one vote on each matter submitted to the stockholders for a vote, and no cumulative voting for directors is permitted. Stockholders do not have any preemptive rights to acquire additional securities issued by the Company.

The Company has never paid any cash dividends and intends, for the foreseeable future, to retain any future earnings for the development of its business. The Company's future dividend policy will be determined by the board of directors on the basis of various factors, including its results of operations, financial condition, capital requirements and investment opportunities.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**8. Stock Incentive Plans**

***2022 Combined Incentive and Non-Qualified Stock Option Plan***

Related to the Share Exchange Agreement with Super Simple AI, Inc., on February 17, 2022, the Board of Directors approved the 2022 Combined Incentive and Non-Qualified Stock Option Plan (the "Plan") to issue options to acquire a maximum of 3,000,000 common stock shares. As of September 30, 2023, future grants for375,131 shares of common stock can be issued under this plan. Options can be granted for a term up to ten years. All previous awards under the 2007 and 2019 Plans were cancelled and replaced with identical awards under the 2022 Stock Incentive Plan.

***Prior Stock Option Plan***

The 2007 Stock Incentive Plan was authorized to issue options to acquire a maximum of952,941 common stock shares. As September, 2023, no future grants for shares of common stock can be issued under this plan. The 2018 Stock Incentive Plan ("2018 Plan") was authorized to issue options to acquire a maximum of 1,500,000 shares. Options can be granted for a term up to ten years. The 2018 Plan was terminated in 2022.

***Stock Appreciation Rights Plan***

Related to the Share Exchange Agreement with Super Simple AI, Inc., on February 17, 2022, the Board of Directors approved the 2022 Stock Appreciation Rights Plan to issue a maximum of 1,500,000 stock appreciation rights ("SAR"). Available future grants for 500,000 SAR units can be issued under the Plan. All previous awards under the 2018 Plan were cancelled and replaced with identical awards under the 2022 Stock Appreciation Plan. There were no SAR grants made in 2023 or 2022. As of September 30, 2023 there is 1,000,000 SAR outstanding with a base value of $0.20 and January 2028 expiration.

***Prior Stock Appreciation Rights***

The 2018 Stock Appreciation Plan is authorized to issue a maximum of 1,500,000 stock appreciation rights ("SAR"). Under the Stock Appreciation Plan, on January 16, 2018, the Company granted Mr. Huang, the Company's Chief Executive Officer, 1,000,000 shares in stock appreciation rights for past service. The rights granted shall be subject to the prohibitions and restrictions set forth here in respect to the sale of other disposition of such rights. The rights each have a base value of $0.20 per share. The rights granted have a maturity date of January 16, 2028. Within 90 days following the maturity date, the Company must settle the appreciation amount. The appreciation amount may be paid in common stock, in cash in a combination of the two or in any other form of consideration, as determined by the board and contained in the Stock Appreciation Right Agreement. The Company calculated the fair value of the SARs using the Black-Scholes-Merton valuation model at the date of grant and recorded the entire fair value as compensation expense in 2018 as the SAR's were issued for prior service and there is no additional service obligation. The SAR was classified as an equity instrument. This plan has been terminated in 2022 and grants outstanding under this plan moved to the 2022 plan.

***Determining Fair Value under ASC 718***

The Company records stock-based compensation expense associated with stock options, SAR's and other equity-based compensation using the Black-Scholes-Merton option valuation model for estimating fair value of stock options granted under the plan. The Company amortizes the fair value of stock options on a ratable basis over the requisite service periods, which are generally the vesting periods. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company estimates the volatility of its common stock based on the historical volatility of publicly traded peer companies over the most recent period corresponding with the estimated expected life of the award. The Company bases the risk-free interest rate used in the Black Scholes-Merton option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. The Company has not paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes-Merton valuation model and adjusts stock-based compensation for changes to

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**8. Stock Incentive Plans** (cont.)

the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed. The Company recorded stock-based compensation of $479,913 and $447,690 for the nine months ended September 30, 2023 and 2022, respectively.

***Stock Incentive Plans Activity (Excluding SAR)***

As of September 30, 2023, there are 2,624,869 options outstanding under various stock option plans to acquire common stock at an average exercise price of $0.926 per share. As of September 30, 2023, there is $457,029 of total unrecognized stock-based compensation related to employee granted stock options that are not vested.

During the nine months September 30, 2023, the Company issued stock option grants to employees for 257,500 shares at an exercise price of $2.88 per share. During the years ended December 31, 2022 and 2021, the Company issued stock option grants to employees for 280,520 and 915,524 shares at an exercise price of $2.88 and $1 per share. The stock option grants vest over various terms and expire in five to ten years. Activity in the stock incentive plans for the nine months ended September 30, 2023 and the years ended December 31, 2022 and 2021 was as follows:

| | Options Shares | Weighted Average Exercise Price | Option $ |
|---|---|---|---|
| Outstanding as of December 31, 2021 | 2,168,787 | $ 0.44 | $ 964,577 |
| Granted | 280,250 | 2.88 | 807,120 |
| Forfeitures | (81,668) | (1.00) | (81,668) |
| Outstanding as of December 31, 2022 | 2,367,369 | 0.714 | 1,690,029 |
| Granted | 257,500 | 2.88 | 741,600 |
| Exercised | — | — | — |
| Forfeitures | — | — | — |
| Outstanding as of September 30, 2023 | 2,624,869 | $ 0.926 | $ 2,431,629 |

The following table summarizes information about stock options outstanding and exercisable as of September 30, 2023:

| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life In Years | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price Exercisable | Weighted Average Remaining Life In Years – Vested and Exercisable |
|---|---|---|---|---|---|---|
| $ 0.20 | 1,505,263 | 4.63 | $ 0.200 | 1,505,263 | $ 0.20 | 4.63 |
| 1.00 | 581,856 | 4.72 | 1.00 | 473,892 | 1.00 | 4.72 |
| 2.88 | 537,750 | 9.34 | 2.88 | — | 2.88 | 9.34 |
| | 2,624,869 | 5.61 | $ 0.926 | 1,979,155 | $ 0.392 | 5.61 |

The significant weighted-average assumptions relating to the valuation of the Company's stock option grants for the years ended December 31, 2022 and 2021 were as follows:

| Assumptions | 9/30/2023 | 12/31/2022 | 12/31/2021 |
|---|---|---|---|
| Estimated stock price | $ 3.33 | $ 2.88 | $ 3.00 |
| Exercise price | $ 2.88 | $ 2.88 | $ 1.00 |
| Dividend yield | 0% | 0% | 0% |
| Expected life | 5 years | 5 years | 5 – 6 Years |
| Expected volatility | 39% | 70% | 75% |
| Risk free interest rate | 3.92% | 4.06% | 0.86% – 1.74% |

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**8. Stock Incentive Plans** (cont.)

There were stock incentive plan awards outstanding at September 30, 2023 totaling 2,624,869 shares with an aggregate intrinsic value of $5,127,994.

There were no SAR grants in 2023.

***Warrants to Purchase Common Stock***

On May 8, 2023, the Company issued warrants to purchase common to Victor Huang and Derek Xu for765,000 shares to each of the founders. The warrants were valued at $2,136,115 based on the exercise price of $3.12, the fair market stock price of $3.33, a five year term, a volatility of39.4% and interest of 3.41%. The warrants were recorded as stock-based compensation expense and as additional paid in capital. All warrants are fully vested as they were issued for services performed and have an aggregate intrinsic value of $321,300.

**9. Employee 401(k) Plan**

The Company has a 401(k) plan for its employees.The plan provides for a 3.5% match on up to 6% of deferred salary The Company expensed $138,532 and $156,751 of contributions during the nine months ended September 30, 2023 and 2022, respectively.

**10. Related Party Transactions**

In 2020, Victor Huang and Derek Xu, the Founders, officers and directors of the Company, borrowed $3,000,000 ("shareholder advances") from Airship. As of December 31, 2022, the Company was owed $1,100,000 by the Founders. Due to the lack of certainty over the payment of interest, the Company will record when received. Due to the uncertainty of the timing of payment, the advances will be treated as a long-term asset. The shareholders' advances bear interest at 5% and during the nine months ended September 30, 2023 and 2022 no interest was paid. On February 28, 2023, the Founders transferred their interest in Zeppelin to the Company and the $1,100,000 owed by the Founders to the Company was eliminated.

As of December 31, 2022, Zeppelin had received from the Company $1,095,000 in cash advances to fund operations which commenced in 2021. These advances between the companies are eliminated in the consolidated balance sheet. As of December 31, 2022, Zeppelin owes the Founders $ 1,100,000 for funds they have provided for the commencement of operations in 2021. The balance was not expected to be paid in the next year and was treated as long term liabilities. On February 28, 2023 in connection with the transfer of the Zeppelin ownership from the shareholders to the Company, the $1,100,000 Payable to the founders was eliminated.

Mr. Huang and Mr. Xu originally owned all the Zeppelin membership units. When Zeppelin started, their intent was exploring the technology in-development and determining value for external customers by providing cloud based back-end products. After a period of time for Zeppelin's development it became apparent these efforts would be of value and accretive to the Company. In 2022, the Company began utilizing research and development personnel to further develop the Company's products. On February 28, 2023, the Founders transferred its interest in Zeppelin to the Company

The Company sold a vehicle to a founder on March 30, 2021 for a promissory note in the amount of $80,000. The note has a simple interest rate of4%, compounded annually, computed daily based on a 360-day year with principal and interest due in March 2023. Interest payments are due annually. The promissory note and interest of $84,844 was repaid during the year ended December 31, 2022.

A condominium in Juanita Beach, Washington was sold to a founder on May 5, 2021 for a secured promissory note in the amount of $750,000. The note has interest of4% per annum, computed on the diminishing principal balance. Interest commenced on the closing with the first payment due on the first of each month after closing. The note is to be paid in full on or before 24 months from the date of the note. Interest payments are due annually. The promissory note and interest of $794,917 was repaid during the year ended December 31, 2022.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**10. Related Party Transactions** (cont.)

The Company sold the vehicle and the condominium to the founders and recorded a loss of $31,721 on the date of the sale. The Company recorded notes receivable-related parties of $830,000 and accrued interest at 4% of $24,585 as of December 31, 2021. The Company had previously acquired these assets for which the founders were using for a combination of business and personal use.

***Advances***

During the year ended December 31, 2022, Mr. Huang and Mr. Xu advanced Airship AI $1,900,000 and were repaid $1,300,000, with $600,000 recorded as advances from founders as of December 31, 2022. In the nine months ended September 30, 2023, Mr. Huang and Mr. Xu advanced Airship AI $ 1,350,000 and were repaid $200,000, with $1,750,000 recorded as advances from founders as of September 30, 2023. The advances are noninterest bearing and the Company expects to pay the balance off within a one year period.

***Warrants to Purchase Common Stock***

On May 8, 2023, the Company issued warrants to purchase common to Victor Huang and Derek Xu for 765,000 shares to each of the founders. The warrants were valued at $2,136,115 based on the exercise price of $3.12, the fair market stock price of $3.33, a five year term, a volatility of 39.4% and interest of 3.41%. The warrants were recorded as stock-based compensation expense and as additional paid in capital. All warrants are fully vested as they were issued for services performed and had an aggregate intrinsic value of $321,300.

**11. Commitments, Contingencies and Legal Proceedings**

***Legal Proceedings***

The Company may from time to time become a party to various legal proceedings arising in the ordinary course of its business. The Company is currently not a party to any pending legal proceeding that is not ordinary routine litigation incidental to its business.

***Properties and Operating Leases-Right of Use Asset and Lease Liability***

Lease agreements are evaluated to determine whether an arrangement is or contains a lease in accordance with ASC 842, *Leases*. Right of use lease assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The incremental borrowing taking into consideration the Company's credit quality and borrowing rate for similar assets is used in determining the present value of future payments. Lease expense is recorded as general and administrative expenses on the Company's consolidated statements of operations. The Company adopted ASC 842 effective January 1, 2022 and the adoption did not have any impact on previously reported stockholders' deficit.

On May 1, 2019, the Company leased 31,765 square feet for its executive offices in Redmond, Washington. The Company's net monthly payment is $44,440. The monthly payment increases approximately 3% each year and the lease expires on April 30, 2024. The Company has two five-year renewal options. In April 2023, the Company and its landlord entered into an agreement whereby the Company's office lease was terminated on September 30, 2023. As of September 30, 2023, the Company recorded a net gain on lease termination of $78,963 in selling general and administrative expenses on the consolidated statements of operations and comprehensive loss. The gain is comprised of a $344,093 gain from lease liability termination and a loss of $265,130 for accelerated amortization of right-of-use asset.

On July 13, 2023, the Company entered into a new lease in Redmond, WA for 15,567 square feet of office and warehouse space which starts October 1, 2023. The monthly payment is $25,000 per month. The lease expires October 31, 2027 and the monthly payment increases 3% on July 31, 2024 and each year thereafter. There is a one three year option to extend based on the fair market rate on October 31, 2027.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**11. Commitments, Contingencies and Legal Proceedings** (cont.)

On January 1, 2021, the Company leased offices located in Moorestown, North Carolina. The Company leases 3,621 square feet and the net monthly payment is $4,828. The monthly payment increases approximately 3%-6% annually thereafter. The lease expires on February 28, 2024 and can be extended for one three-year term.

The Company has entered into operating leases for office and development facilities which range from two to three years and include options to renew. The Company determines whether an arrangement is or contains a lease based upon the unique facts and circumstances at the inception of the lease. Operating lease liabilities and their corresponding right-of-use asses are recorded based upon the present value of the lease payments over the expected lease term. As of September 30, 2023 and December 31, 2022, total operating lease liabilities was approximately $26,844 and $832,140, respectively. Right of use assets totaled approximately $25,974 and $804,338 at September 30, 2023 and December 31, 2022, respectively. All of the lease payments due at September 30, 2023 are current liabilities while $ 628,371 of the December 31, 2022 lease obligations are current liabilities. In the nine months ended September 30, 2023 and 2022, the Company recognized $487,242 in total lease costs for the leases. Because the rate implicit in each lease is not readily determinable, the Company uses its estimated incremental borrowing rate to determine the present value of the lease payments.

The weighted average remaining lease term for the operating leases was five months at September 30, 2023 and the weighted average discount rate was 7%.

The minimum future lease payments as of September 30, 2023 are as follows:

| **Years Ended September 30,** | |
|---|---|
| 2024 | $ 27,158 |
| Total remaining payments | 27,158 |
| Less Imputed Interest | (314) |
| Total lease liability | $ 26,844 |

**12. Income Taxes**

The Company recorded a provision for income taxes of $0 for the nine months ended September 30, 2023 and 2022.

The Company's effective tax rate was 0% for the nine months ended September 30, 2023 and 2022. The difference between the effective tax rate and the federal statutory tax rate for the nine months ended September 30, 2023 and 2022 primarily relates to the valuation allowance on the Company's deferred tax assets.

For interim periods, the Company estimates its annual effective income tax rate and applies the estimated rate to the year-to-date income or loss before income taxes. The Company also computes the tax provision or benefit related to items reported separately and recognizes the items net of their related tax effect in the interim periods in which they occur. The Company also recognizes the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

As of September 30, 2023 and December 31, 2022, the Company retains a full valuation allowance on its deferred tax assets. The realization of the Company's deferred tax assets depends primarily on its ability to generate taxable income in future periods. The amount of deferred tax assets considered realizable in future periods may change as management continues to reassess the underlying factors it uses in estimating future taxable income.

The Company's provision for income tax has excluded the results of operation for Zeppelin through February 28, 2023 as it was accounted for as VIE but for which the Company has no legal ownership and is thus not included in Company tax filings. Zeppelin was structured as a limited liability corporation with the profits and losses flowing directly to the owners who are responsible for any taxes. Effective February 28, 2023, Zeppelin became a wholly owned subsidiary when the shareholders contributed their interest in Zeppelin to the Company.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**13. Subsequent Events**

The Company entered into a new lease in Redmond, WA for 15,567 square feet of office and warehouse space which starts October 1, 2023. The monthly payment is $25,000 per month. The lease expires October 31, 2027 and the monthly payment increases 3% on July 31, 2024 and each year thereafter. There is a one three year option to extend based on the fair market rate on October 31, 2027.

On November 2 2023, the Company issued senior secured convertible promissory notes for $600,000 to two private investors. At the option of the holder, the note is convertible into cash, common stock or a combination of cash and stock. The conversion into the Company's zero par value common stock is based on the BYTE transaction price. The repayment amount of the note is 110% ($660,000) and matures on September 30, 2024. Interest on the note is 6% per annum calculated on 360 days.

*Report of Independent Registered Public Accounting Firm*

To the Board of Directors and Shareholders of
Airship AI Holdings, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Airship AI Holdings, Inc. (a Washington corporation) (the "Company") as of December 31, 2022 and 2021 and the related consolidated statements of operations and comprehensive loss, changes in stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BPM LLP

**BPM LLP**
We have served as the Company's auditor since 2021.
Walnut Creek, California
September 11, 2023

**AIRSHIP AI HOLDINGS, INC.**
**CONSOLIDATED BALANCE SHEETS**
As of December 31, 2022 and 2021

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 298,614 | $ 1,344,922 |
| Accounts receivable, net of allowance of $0 | 705,752 | 831,353 |
| Prepaid expenses and other | 16,039 | 30,102 |
| Payroll tax receivable | 967,613 | 27,763 |
| Total current assets | 1,988,018 | 2,234,140 |
| PROPERTY AND EQUIPMENT, NET | 16,740 | 31,619 |
| OTHER ASSETS | | |
| Advances to founders, non-current | 1,100,000 | 1,100,000 |
| Operating lease right of use asset | 804,338 | — |
| Notes receivable – related parties | — | 854,585 |
| TOTAL ASSETS | $ 3,909,096 | $ 4,220,344 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable – trade | $ 216,718 | $ 173,694 |
| Advances from founders | 600,000 | — |
| Accrued expenses | 110,662 | 252,470 |
| Accrued income tax expense | 10,000 | — |
| Current portion of Small Business Loan | 292,932 | — |
| Current portion of operating lease liability | 628,371 | — |
| Deferred revenue – current portion | 4,168,016 | 4,593,474 |
| Total current liabilities | 6,026,699 | 5,019,638 |
| NON-CURRENT LIABILITIES: | | |
| Payable to founders | 1,100,000 | 1,100,000 |
| Small Business Loan – non-current | 131,608 | — |
| Note payable – PPP | — | 1,141,722 |
| Deferred rent liability | — | 71,005 |
| Operating lease liability, net of current portion | 203,769 | — |
| Deferred revenue – non-current | 4,805,431 | 5,295,251 |
| Total liabilities | 12,267,507 | 12,627,616 |
| COMMITMENTS AND CONTINGENCIES (Note 11) | | |
| STOCKHOLDERS' DEFICIT: | | |
| Preferred stock – no par value, 20,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 2022 and 2021 | — | — |
| Common stock – no par value, 180,000,000 shares authorized, 7,614,666 shares issued and outstanding as of December 31, 2022 and 2021 | 44,666 | 44,666 |
| Additional paid in capital | 1,921,342 | 1,374,882 |
| Accumulated deficit | (10,314,313) | (9,826,820) |
| Accumulated other comprehensive loss | (10,106) | — |
| Total stockholders' deficit | (8,358,411) | (8,407,272) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 3,909,096 | $ 4,220,344 |

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

**AIRSHIP AI HOLDINGS, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
For the years ended December 31, 2022 and 2021

| | Year Ended December 31, 2022 | Year Ended, December 31, 2021 |
|---|---|---|
| REVENUES | | |
| Product | $ 9,376,465 | $ 7,858,330 |
| Post contract support | 5,008,328 | 4,970,051 |
| Other services | 164,348 | 210,728 |
| Total revenues | 14,549,141 | 13,039,109 |
| | | |
| COST OF REVENUES | | |
| Product | 4,554,340 | 4,522,374 |
| Post contract support | 1,494,583 | 1,487,095 |
| Other services | 79,205 | 42,507 |
| Total cost of revenues | 6,128,128 | 6,051,976 |
| GROSS PROFIT | 8,421,013 | 6,987,133 |
| RESEARCH AND DEVELOPMENT EXPENSES | 3,614,814 | 4,215,321 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 7,630,012 | 8,895,544 |
| TOTAL OPERATING EXPENSES | 11,244,826 | 13,110,865 |
| OPERATING (LOSS) | (2,823,813) | (6,123,732) |
| OTHER INCOME (EXPENSE): | | |
| Interest income | 42,565 | 24,790 |
| Interest expense | (75,256) | (21,194) |
| Other income – PPP loan forgiveness | 1,146,235 | 995,834 |
| Other income – employee retention tax credit | 1,232,776 | — |
| Total other income, net | 2,346,320 | 999,430 |
| | | |
| LOSS BEFORE PROVISION FOR INCOME TAXES | (477,493) | (5,124,302) |
| Provision for income taxes | (10,000) | — |
| NET LOSS | $ (487,493) | $ (5,124,302) |
| | | |
| OTHER COMPREHENSIVE LOSS: | | |
| Foreign currency translation loss | (10,106) | — |
| TOTAL COMPREHENSIVE LOSS | $ (497,599) | $ (5,124,302) |
| | | |
| Basic and diluted loss per share | $ (0.06) | $ (0.67) |
| Weighted average shares of common stock outstanding basic and diluted | 7,614,666 | 7,608,058 |

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

**AIRSHIP AI HOLDINGS, INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT**
For the years ended December 31, 2022 and 2021

| | Common Stock | Common Stock $ | Additional Paid in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2021 | 7,600,000 | $ 30,000 | $ 476,000 | $ — | $ (4,702,518) | $ (4,196,518) |
| Issuance of common stock | 14,666 | 14,666 | — | — | — | 14,666 |
| Stock-based compensation | — | — | 898,882 | — | — | 898,882 |
| Net loss | — | — | — | — | (5,124,302) | (5,124,302) |
| Balance as of December 31, 2021 | 7,614,666 | 44,666 | 1,374,882 | — | (9,826,820) | (8,407,272) |
| Stock-based compensation | — | — | 546,460 | — | — | 546,460 |
| Foreign currency translation loss | — | — | — | (10,106) | — | (10,106) |
| Net loss | — | — | — | — | (487,493) | (487,493) |
| Balance as of December 31, 2022 | 7,614,666 | $ 44,666 | $ 1,921,342 | $ (10,106) | $ (10,314,313) | $ (8,358,411) |

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

**AIRSHIP AI HOLDINGS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
For the years ended December 31, 2022 and 2021

| | Year Ended December 31, 2022 | Year Ended, December 31, 2021 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (487,493) | $ (5,124,302) |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 14,879 | 53,200 |
| Stock-based compensation – stock option grants | 546,460 | 898,882 |
| Amortization of operating lease right of use asset | 517,232 | — |
| Gain on forgiveness of note payable – PPP | (1,146,235) | (995,834) |
| Loss on disposal of assets | — | 31,721 |
| Non cash interest, net | 17,181 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 125,601 | 582,927 |
| Prepaid expenses and other | 14,063 | (30,102) |
| Operating lease liability | (560,435) | — |
| Payroll tax receivable | (939,850) | (10,500) |
| Accounts payable – trade and accrued expenses | (98,784) | 98,333 |
| Accrued income taxes payable | 10,000 | — |
| Deferred rent liability | — | (2,902) |
| Deferred revenue | (915,278) | (633,958) |
| NET CASH USED IN OPERATING ACTIVITIES | (2,902,659) | (5,132,535) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from small business loan and line of credit | 565,050 | — |
| Proceeds from notes receivable – related parties | 841,917 | — |
| Advances from founders | 1,900,000 | — |
| Repayment of advances from founders | (1,300,000) | — |
| Repayment of small business loan and line of credit | (140,510) | — |
| Stock option exercise | — | 14,666 |
| Repayment by founders, net | — | 2,490,000 |
| Proceeds from notes payable – PPP | — | 1,131,878 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,866,457 | 3,636,544 |
| | | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (1,036,202) | (1,495,991) |
| Effect from exchange rate on cash | (10,106) | — |
| CASH AND CASH EQUIVALENTS, beginning of year | 1,344,922 | 2,840,913 |
| CASH AND CASH EQUIVALENTS, end of year | $ 298,614 | $ 1,344,922 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | $ 19,950 | $ 11,349 |
| Taxes paid | $ — | $ 54,820 |
| | | |
| Non-cash investing and financing activities: | | |
| Right of use asset – adoption of ASC 842 | $ 1,321,570 | $ — |
| Operating lease liability – adoption of ASC 842 | $ 1,392,575 | $ — |
| Deferred rent write off – adoption of ASC 842 | $ 71,005 | $ — |

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

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization**

On March 7, 2023, the Company changed its name to Airship AI Holdings, Inc. from Super Simple AI, Inc. Airship AI Holdings, Inc. (the "Company" or "Airship") is a holding company that executes business through its wholly owned subsidiary, Airship AI, Inc. Prior to the formation of Super Simple AI, Inc. in 2022, the Company operated as Airship AI, Inc. (formerly known as JDL Digital Systems, Inc.) Super Simple AI, Inc. was formed in January 2022 through a share exchange with JDL Digital System. JDL Digital Systems, Inc. was incorporated under the laws of the State of Washington on June 30, 2003.

The Company has historically enabled government and commercial customers, through a combination of hardware, software, including artificial intelligence ("AI") and service offerings to manage existing and emerging physical security challenges through a secure single-pane-of-glass Common Operational Picture (COP), connecting a wide range of sensors and edge Internet of Things ("IoT") devices across disparate networks, environments, and geographic locations to a single consolidated location.

The Company employed 48 employees as of December 31, 2022 and is headquartered in Redmond, WA and is supported by a growing team at our Customer Center of Excellence located in Charlotte, NC as of January 2021. The Company employed 15 research and development personnel in Taiwan as of December 31, 2022.

The Company's products appeal to customers whose business operations are geographically diverse, providing essential goods and services, requiring physical security solutions that are tailored to their unique physical security requirements. Airship further appeals to customers who want to choose the right tool for the job (or tailor the tool to fit the job), rather than have to operate based on the tools that are commercially available to them.

The Company has historically promoted its goods and services through very select marketing and advertising channels, most of which are closed to the general public and or are limited in their focus to customers specifically looking for solutions in the physical security and video surveillance arena.

Our initial software application is now further evolving into an enterprise grade solution addressing a broadened data management lifecycle, starting at the edge. Edge Cloud Computing is being increasingly viewed as a key enabler and technology necessity.

During 2020, the Company's two main owners started a new business, Zeppelin Worldwide, Inc. and its subsidiary, Zeppelin Taiwan, Ltd. (together "Zeppelin"). Zeppelin's focus is on the development of cloud-based products. Zeppelin is considered a variable interest entity (VIE) and is consolidated with the Company (see Note 3). On February 28, 2023, the Founders transferred their interest in Zeppelin Worldwide, LLC and its subsidiary, Zeppelin Taiwan, Ltd. to the Company.

***Liquidity, Going Concern and Management's Plans***

As reflected in the accompanying consolidated financial statements, as of and for the year ended December 31, 2022, the following conditions were noted that raise substantial doubt about the Company's ability to continue as a going concern:

- The Company incurred a fiscal year net loss of $487,493 and utilized cash in operations of $2,902,659.
- Cash balance of $298,614.
- Stockholders' deficit of $8,358,411.

The Company spent significantly on research and development during 2020 to 2022 to develop the AI platform. The investment in product development has produced an industry leading technology and increased business opportunities during 2023.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization** (cont.)

During the year ended December 31, 2022, Mr. Huang and Mr. Xu, the Company's founders and current executive officers, advanced the Company $1,900,000 and were repaid $1,300,000, with $600,000 recorded as advances from founders as of December 31, 2022. Since December 31, 2022, Mr. Huang and Mr. Xu advanced the Company $1,150,000 and were repaid $200,000.

Management's Plan

Management implemented a multipart plan ("the Plan") to return the Company to profitability and to alleviate any substantial doubt regarding the Company's ability to continue as going concern for the next twelve months. The Plan consisted of the following:

Operating expenses were reduced from $13.1 million per year to the current run rate of $10.2 million per year, primarily resulting from the reduction in workforce. In addition, the Company is exiting its Redmond facility by September 30, 2023 at an annual savings of $350,000 per year.

The Company is experiencing material growth from existing and new customers in order opportunities, including those from its AI product platform and those from long standing customers such as Federal Express. The Company expects to close substantial orders in the next 90 to 120 days to significantly improve its cash and liquidity position. The Company also has a robust potential order pipeline that goes into 2024. Supply chain issues have been mostly resolved and product delivery time has been reduced by almost 50% over the prior few years. The improved supply chain situation allows the Company to convert orders more quickly to cash.

On June 22, 2023, the Company entered into a Senior Secured convertible Promissory Note with Platinum Capital Partners Inc. and received $2 million. As a condition of funding, the Company paid off three small notes and accounts payable totaling $374,000. See Note 13.

On June 27, 2023, the Company entered into a merger agreement with BYTE Acquisition Corp, (NASDAQ: BYTS) a special purpose acquisition corporation ("BYTE"). The Merger will become effective upon the filing of the articles of merger with the Secretary of State of the State of Washington or at such later time as is agreed to by the parties to the Merger Agreement and specified in the articles of merger. Upon completion of the merger agreement with BYTE, the Company will become a publicly traded company. BYTE has executed non-redemption agreements totaling $7 million. The Company is expected to receive $2 million net of merger transaction expenses from the non-redemption agreements. See Note 13. There are no assurances that this transaction will close.

Mr. Huang has committed to providing $2.5 million in additional temporary funding if it is necessary

Based on the Company's actions undertaken during 2023, the Company believes that the substantial doubt of the Company's ability to continue as a going concern for 12 months from the date of issuance of these consolidated financial statements has been alleviated.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and Zeppelin. Intercompany accounts and transactions have been eliminated. The preparation of these consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

***Functional Currency***

The Company's consolidated functional currency is the U.S. Dollar. The operations of Zeppelin use the Taiwan Dollar as its functional currency. At each period end, Zeppelin's balance sheet is translated into U.S. Dollars based upon the period end exchange rate, while their statements of operations and comprehensive loss and statements of cash flows are translated into U.S. Dollars based upon an average exchange rate during the period.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Consolidation of Variable Interest Entities***

A VIE is a legal entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. The Company's variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets.

A VIE is consolidated by its primary beneficiary, the party that has both the power to direct the activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The Company consolidates a VIE when it is deemed to be the primary beneficiary. The Company assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis. As of December 31, 2022 and 2021, the Company is considered to be the primary beneficiary of Zeppelin. See Note 3. On February 28, 2023, the Founders transferred their interest in Zeppelin Worldwide, LLC and its subsidiary, Zeppelin Taiwan, Ltd., to the Company.

***Cash and Cash Equivalents***

The Company classifies highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. The Company maintains cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to $250,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit.

***Revenue Recognition and Deferred Revenue***

The Company primarily generates revenue from sales of systems and products and the related post contract support to customers. The Company's primary systems and products include Outpost AI, Acropolis and Airship Command. To date, the majority of the Company's product revenue that has been recognized consists primarily of a bundled offering of hardware and software which delivers on premise solutions to its customers. Separate limited software subscription services have been delivered to customers including those customers that are able to operate in a cloud based environment. The transaction price recognized as revenue represents the amount the Company expects to be entitled to and is primarily comprised of product revenue, net of returns and variable consideration, including sales incentives provided to customers. Payment is typically due within 30 to 90 calendar days of the invoice date.

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Company satisfies a performance obligation, as further described below.

***Product Revenue***

Product revenue is derived primarily from sales of the Company's system offerings, Outpost AI, Acropolis and Airship Command. The Company recognizes product revenue at a point in time when title transfers, when the products are shipped, or when control of the system is transferred to the customer, which usually is upon delivery of the system and when contractual performance obligations have been satisfied.

***Post Contract Support Revenue***

Post Contract Support ("PCS") revenue is derived primarily from the Company's support and software maintenance agreements ("SMA"). The Company's PCS includes the right to receive, on a when and if available basis, future unspecified firmware upgrades and features as well as bug fixes, and email and telephone support. The Company allocates a portion of the transaction price to the PCS performance obligation based on a cost-plus methodology

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

and recognizes the associated revenue on a straight-line basis over the estimated term of the support period. The Company's support contracts are typically one to five years with an average of four years, payment is due within 30 to 90 calendars days of the invoice date and include options to renew. For the years ended December 31, 2022 and 2021, the Company recognized revenue of $80,929 and $96,070, respectively, related to one-year support contracts. For the years ended December 31, 2022 and 2021, the Company recognized revenue of $4,912,258 and $4,889,121, respectively, related to multi-year support contracts.

***Other Services***

The Company earns other service revenues from installation services, training and licensing which are short-term in nature and revenue for these services are recognized at the time of performance when the service is provided.

***Contracts with Multiple Performance Obligations***

The Company's contracts with customers often contain multiple performance obligations that can include three separate obligations: (i) a hardware component (which may be bundled with hardware accessories) and the embedded firmware essential to the functionality of the hardware component delivered at the time of sale; (ii) the implicit right to the Company's downloadable free application and software solutions, and (iii) the right for the customer to receive post contract support ("PCS") after the initial sale. The Company's products and PCS offerings have significant standalone functionalities and capabilities. Accordingly, the products are distinct from the Company's PCS services as customers can benefit from the products without the PCS services and such PCS services are separately identifiable within the contracts. The Company accounts for multiple agreements with a single customer as a single contract if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract. The amount of consideration the Company expects to receive in exchange for delivering on the contract is allocated to each performance obligation based on its relative standalone selling price.

The Company establishes the standalone selling price using the prices charged for a deliverable when sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price based on its pricing model and offering type (products or PCS services).

The Company has elected the practical expedient to not assess whether a contract has a significant financing component as the Company's standard payment terms are less than one year.

The Company sells its products primarily through a direct sales force. The Company considers revenue to be earned when all of the following criteria are met:

- The Company has a contract with a customer that creates enforceable rights and obligations,
- Promised performance obligations are identified,
- The transaction price, or the amount we expect to receive, is determinable and
- The Company has satisfied the performance obligations to the customer.

Transfer of control is evidenced upon passage of title and risk of loss to the customer unless the Company is required to provide additional services.

The Company's short-term and long-term deferred revenue balances totaled $4,168,016 and $4,805,431 as of December 31, 2022. The Company's short-term and long-term deferred revenue balances totaled $4,593,474 and $5,295,251 as of December 31, 2021. Of the deferred revenue balance of $9,888,275 and $10,552,683 as of January 1, 2022 and 2021, the Company recognized $4,593,474 and $4,597,054 of net revenue during the years ended December 31, 2022 and 2021, respectively.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Accounts Receivable and Allowance for Doubtful Accounts***

The Company generally sells its products to large governmental entities and large corporations in the United States. Accounts receivable are recorded at invoiced amounts and are non-interest bearing. The Company maintains an allowance for uncollectible accounts receivable. It is our practice to regularly review and revise, when deemed necessary, our estimates of uncollectible accounts receivable, which are based primarily on actual historical bad debt and sales return trends, customers financial condition and general economic conditions. The Company records estimated uncollectible accounts receivable as selling, general and administrative expense. As of December 31, 2022 and 2021, there was no allowance for bad debts or sales returns. This is based upon the Company's historical experience.

***Concentration of Credit and Sales Risk***

The Company sells its product to commercial and government customers under agreements that are normally paid within 30 days of contract completion. For the year ended December 31, 2022 two customers represented 28% and 17% of total revenue. For the year ended December 31, 2021, three customers represented18%, 17% and 16% of revenue. As of December 31, 2022, four customers represent approximately 42%, 19%, 14% and 10% of outstanding accounts receivable. As of December 31, 2021, three customers represented 28%, 22% and 18% of the outstanding receivables. Due to the customers and timely payments, customer concentration in accounts receivable is minimal.

***Inventory***

The Company's purchase of inventory, primarily computer servers, is undertaken to match purchase orders received from customers. Upon receipt of inventory, the Company generally configures the servers and loads proprietary software onto the servers before shipping out. The Company holds inventory for a short period of time and as of December 31, 2022 and 2021, it had no inventory in stock. Inventory value is primarily material costs and is valued at the lower of cost (first in, first out method) or net realizable value.

***Property and Equipment***

Property and Equipment consists of vehicles, which are stated at cost less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives or lease period of the relevant asset. Computer equipment is expensed to research and development or selling, general and administrative expense and any furniture and computer equipment is either fully depreciated or immaterial to the consolidated financial statements.

***Long-Lived Assets***

The Company reviews its long-lived assets for impairment annually or when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets under certain circumstances are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value (less the projected cost associated with selling the asset). To the extent carrying values exceed fair values, an impairment loss is recognized in operating results. The Company recorded impairment losses of $0 and $31,721 for the years ended December 31, 2022 and 2021, respectively, within selling, general and administrative expenses.

***Research and Development Expenses***

Research and development expenses consist of the cost of employees, consultants and contractors who design, engineer and develop new products and processes as well as materials, supplies and facilities used in producing prototypes.

The Company's current research and development efforts are primarily focused on improving the Company's products. The Company is also actively involved in identifying new applications. The Company's current internal team along with outside consultants has considerable experience working with the application of the Company's technologies and their applications. The Company engages third party experts as required to supplement the Company's internal team.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

The Company believes that continued development of new and enhanced technologies is essential to the Company's future success. The Company incurred expenses of $3,614,814 and $4,215,321 for the years ended December 31, 2022 and 2021, respectively on development activities.

***Software Development Costs***

Costs incurred in the development of software programs for the Company's products are charged to operations as incurred until technological feasibility of the software has been established. Generally, technological feasibility is established when the software module performs its primary functions described in its original specifications, contains features required for it to be usable in a production environment, is completely documented and the related hardware portion of the product is complete. After technological feasibility is established, any additional costs are capitalized. Capitalization of software costs ceases when the software is substantially complete and is ready for its intended use. No software development costs have been capitalized during the years ended or as of December 31, 2022 and 2021.

***Cost of Net Revenues***

Cost of net revenues for products includes components and freight. Cost of net revenues for post contract support and other services includes primarily the cost of personnel and personnel-related expenses to conduct implementations and ongoing client support.

***Advertising***

Advertising costs are charged to selling, general and administrative expenses as incurred. Advertising and marketing costs for the years ended December 31, 2022 and 2021 were $69,975 and $283,276, respectively.

***Shipping and Handling of Products***

Amounts billed to customers for shipping and handling of products are included in net revenues. Costs incurred related to shipping and handling of products are included in cost of revenues.

***Fair Value Measurements***

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

*Level 1* — Quoted prices in active markets for identical assets and liabilities;

*Level 2* — Inputs other than level one inputs that are either directly or indirectly observable; and

*Level 3* — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The recorded value of other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, and accounts payable and accrued expenses approximate the fair value of the respective assets and liabilities as of December 31, 2022 and 2021 are based upon the short-term nature of the assets and liabilities. The Company has no assets or liabilities that are required to be recorded at fair value on a recurring basis.

***Stock-Based Compensation***

The Company has share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, stock appreciation rights, incentive stock options, nonqualified stock option and warrants to purchase shares of Company common stock at the fair market value at the time of grant. Stock-based compensation cost is measured by the Company at the grant date and the fair value of the award is recognized as an expense, over the requisite service period which is generally the vesting period.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Income Taxes***

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The Company's ability to realize deferred tax assets depends upon future taxable income, as well as the limitations discussed below. For financial reporting purposes, a deferred tax asset must be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized prior to expiration. The Company considers historical and future taxable income, future reversals of existing taxable temporary differences, taxable income in prior carryback years, and ongoing tax planning strategies in assessing the need for valuation.

***Advances due to Founders and Advances due from Founders***

The Company accounts for advances made to founders as a contra equity balance unless payment has been received subsequent to year end or such amounts can be offset with amounts due to the Founders. As of December 31, 2022 and 2021 the Company has $1,100,000 of advances due from the Founders and advances due to the Founders. The transactions were entered into separately by the Airship and Zeppelin and thus are reported separately on the accompanying consolidated balance sheets. See Note 3.

During the year ended December 31, 2022, the Founders advanced the Company $1,900,000 and were repaid $1,300.000, with $600,000 recorded as advances due to founders as of December 31, 2022.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is defined as the change in equity of a business during a period from non-owner sources. There was other comprehensive loss of $10,106 related foreign exchange translation for the year ended December 31, 2022. There was no other comprehensive income for the year ended December 31, 2021.

***Going Concern Assessment***

The Company applies Accounting Standards Codification 205-40 ("ASC 205-40"), *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which the Financial Accounting Standards Board ("FASB") issued to provide guidance on determining when and how reporting companies must disclose going concern uncertainties in their consolidated financial statements. ASC 205-40 requires management to perform assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's consolidated financial statements (or within one year after the date on which the consolidated financial statements are available to be issued, when applicable). Further, a company must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern" and management plans to alleviate the going concern.

***Use of Estimates***

In preparing these consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions included in our consolidated financial statements relate to the calculation of revenue recognition, stock-based compensation, valuation of common stock, accruals for potential liabilities including income taxes, valuation of deferred tax assets and valuation assumptions related to share-based compensation.

***Earnings Per Share***

Basic and diluted earnings per share is based upon the net loss for the year divided by the weighted average shares of common stock outstanding. Common stock equivalents such as stock options, warrants and stock appreciation rights are not included in the calculation of diluted earnings per share given they are anti-dilutive.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies** (cont.)

***Recent Accounting Pronouncements***

Based on the Company's review of accounting standard updates recently issued, those standards not yet required to be adopted and proposed standards for the future, the Company does believe such items are expected to have a significant impact on the Company's consolidated financial statements. See Note 11 for discussion about adoption of the new lease accounting standard effective January 1, 2022.

**3. Advances due to and from Founder's and Transactions with Zeppelin Worldwide LLC**

In 2020, Victor Huang and Derek Xu, the Founders, officers and directors of the Company, borrowed $3,000,000 ("shareholder advances") from Airship. As of December 31, 2022 and 2021, the Company was owed $1,100,000 by the Founders. Due to the lack of certainty over the payment of interest, the Company will record when received. Due to the uncertainty of the timing of payment, the advances will be treated as a long-term asset. The shareholders advances bear interest at 5% and during 2022 and 2021 no interest was paid. On February 28, 2023, the Founders transferred their interest in Zeppelin Worldwide, LLC and its subsidiary, Zeppelin Taiwan, Ltd., to the Company.

During the years ended December 31, 2022 and 2021, Zeppelin received from the Company an additional $1,095,000 and $590,000 in cash advances to fund operations which commenced in 2021. These advances between the companies are eliminated in the consolidated balance sheet. As of December 31, 2022 and 2021, Zeppelin owes the Founders $1,100,000 for funds they have provided for the commencement of operations in 2021. These balances are not expected to be paid in the next year and are treated as long term liabilities.

As of December 31, 2022 and 2021, Zeppelin had approximately $73,000 and $380,000, respectively in assets which is primarily cash. As of December 31, 2022 and 2021, Zeppelin had accrued liabilities of approximately $60,000 and $197,000, respectively. As of December 31, 2022 and 2021, the Zeppelin liability to the Company and shareholders for advances of $2,254,000 and $1,100,000, respectively. Zeppelin advances from the Company at December 31, 2022 totaling approximately $1,150,000 are eliminated in consolidation. As of December 31, 2022 and 2021, the Zeppelin stockholder's deficit of approximately $ 2,181,000 and $917,000, respectively for research and development expenses incurred during 2022 and 2021.

During 2022, the Founders advanced additional non interesting bearing funds to help fund operational cash flows. As of December 31, 2022, the Advances to Founders balance owed is $600,000 and it is expected to be paid within the next year.

Mr. Huang and Mr. Xu owned all the Zeppelin membership units. When Zeppelin started, their intent was exploring the technology in-development and determine value for external customers by providing cloud based back-end products. After a period of time for Zeppelin's development it became apparent these efforts would be of value and accretive to the Company. In 2022, the Company began utilizing Zeppelin's research and development personnel to develop the Company's products. On February 28, 2023, the Founders transferred its interest in Zeppelin Worldwide, LLC and its subsidiary, Zeppelin Taiwan, Ltd., to the Company.

**4. Property and Equipment, Net**

Property and equipment, net as of December 31, 2022 and 2021 was comprised of the following:

| | Estimated Useful Lives | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| Vehicles | 5 years | $ 199,502 | $ 199,502 |
| Less: accumulated depreciation | | (182,762) | (167,883) |
| | | $ 16,740 | $ 31,619 |

Total depreciation expense was $14,879 and $53,200, respectively, for the years ended December 31, 2022 and 2021. All equipment is used for selling, general and administrative purposes and accordingly all depreciation is classified in selling, general and administrative expenses.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Revenues**

***Disaggregation of Revenue***

The Company's net revenues in 2022 and 2021 consisted of approximately $9.4 million and $7.9 million of hardware and software bundled systems for which revenue is transferred at a point in time. The Company's remaining net revenue of approximately $5.1 million and $5.1 million relates to PCS revenue and other services which are transferred over time. Within each product category, contract terms, conditions and economic factors affecting the nature, amount, timing and uncertainty around revenue recognition and cash flow are substantially similar.

***Contract Balances***

A receivable is recognized in the period the Company delivers goods or provides services or when the Company's right to consideration is unconditional. The Company usually does not record contract assets because the Company has an unconditional right to payment upon satisfaction of the performance obligation, and therefore, a receivable is more commonly recorded than a contract asset. Receivables are generally paid within thirty days and there is no financing element to the customer contracts. As of December 31, 2022 and 2022 there are no unbilled receivable balances.

Contract liabilities include payments received in advance of performance under a contract and are satisfied as the associated revenue is recognized. Contract liabilities are reported on the consolidated balance sheets at the end of each reporting period as a component of deferred revenue. The Company's short-term and long-term deferred revenue balances totaled $4,168,016 and $4,805,431 as of December 31, 2022. The Company's short-term and long-term deferred revenue balances totaled $4,593,474 and $5,295,251 as of December 31, 2021. Of the deferred revenue balance of $9,888,275 and $10,552,683 as of January 1, 2022 and 2021, the Company recognized $4,593,794 and $4,597,054 of net revenue during the years ended December 31, 2022 and 2021, respectively.

***Remaining Performance Obligations***

As of December 31, 2022, the Company had approximately $9.0 million of remaining performance obligations, which were comprised of deferred service contracts not yet delivered. The Company expects to recognize approximately 46% of its remaining performance obligations as revenue in fiscal 2023 and the remaining 54% in fiscal 2024 and years thereafter.

As of December 31, 2021, the Company had approximately $9.9 million of remaining performance obligations, which were comprised of deferred service contracts not yet delivered. The Company expects to recognize approximately 46% of its remaining performance obligations as revenue in fiscal 2022 and the remaining 54% in fiscal 2023 and years thereafter.

***Costs to Obtain or Fulfill a Contract***

The Company does not pay any material variable compensation to obtain a customer contract. Additionally, the majority of the Company's cost of fulfillment as a seller of products is classified as inventory and then cost of revenue when the product is sold. Other costs of contract fulfillment such as software maintenance are expensed in the period incurred and align with when the revenue is amortized.

**6. Notes Payable and Line of Credit**

On April 29, 2020, the Company received $984,485 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). The Note Payable included interest of $ 11,349 and was due April 17, 2022. The loan and interest were forgiven on June 14, 2021. The loan and interest forgiveness totaling approximately $996,000 were recognized as other income during the year ended December 31, 2021.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. Notes Payable and Line of Credit** (cont.)

On January 25, 2021, the Company received $1,131,878 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). The Note Payable bears interest at 1% and is due January 23, 2026. The Company accrued interest of $9,845 as of December 31, 2021. The Company has used the funds in accordance with the legal requirements and has applied for forgiveness. No payments are due unless the Company receives notification that their application for forgiveness is not approved at which time monthly payments through January 2026 would be required to repay the balance. In May 2022, the entire unpaid balance was forgiven and approximately $1,146,000 recognized as other income.

On July 8, 2022, the Company entered into a Business Loan with Funding Circle of Denver, Colorado for $500,000. The Company received $480,050. The $500,000 plus interest at 6.99% is being repaid at $22,384 per month over twenty-four months. The Business Loan is secured by the assets of the Company and is guaranteed by the founders. The balance as of December 31, 2022 was $424,540 of which $292,932 is due in 2023 and $131,608 in 2024.The Company recorded interest expense of $14,076 and a loan origination fee of $19,950 during the year ended December 31, 2022.

The Company had a $85,000 revolving line of credit agreement with no stated expiration date. As of December 31, 2022 and 2021, there is no balance outstanding, and the agreement has a variable interest rate. As of December 31, 2022, the interest rate was 11.85%. The line of credit is unsecured.

**7. Stockholders' Deficit**

The Company amended and restated its articles of incorporation in April 2022 and has authorized 200,000,000 shares of capital stock, of which 180,000,000 are shares of voting common stock, no par value per share and 20,000,000 shares of preferred stock. As of December 31, 2022 and 2021, the Company had 7,614,666 shares of common stock issued and outstanding. No shares of preferred stock are outstanding. Each share of common stock titles its holder to one vote on each matter submitted to the stockholders for a vote, and no cumulative voting for directors is permitted. Stockholders do not have any preemptive rights to acquire additional securities issued by the Company.

On June 14, 2021, a former director exercised vested stock options grants for14,666 shares of the Company's common stock and paid $14,666.

The Company has never paid any cash dividends and intends, for the foreseeable future, to retain any future earnings for the development of our business. Our future dividend policy will be determined by the board of directors on the basis of various factors, including our results of operations, financial condition, capital requirements and investment opportunities.

**8. Stock Incentive Plans**

***2022 Combined Incentive and Non-Qualified Stock Option Plan***

Related to the Share Exchange Agreement with Super Simple AI, Inc., on February 17, 2022, the Board of Directors approved the 2022 Combined Incentive and Non-Qualified Stock Option Plan (the "Plan") to issue options to acquire a maximum of 3,000,000 common stock shares. Future grants for 831,213 shares of common stock can be issued under this plan. Options can be granted for a term up to ten years. All previous awards were cancelled and replaced with identical awards under the 2022 Stock Incentive Plan.

***Stock Appreciation Rights Plan***

Related to the Share Exchange Agreement with Super Simple AI, Inc., on February 17, 2022, the Board of Directors approved the 2022 Stock Appreciation Rights Plan to issue a maximum of 1,500,000 stock appreciation rights ("SAR"). Available future grants for 500,000 SAR units can be issued under the Plan. All previous awards under the 2018 Plan were cancelled and replaced with identical awards under the 2022 Stock Appreciation Plan. There were no SAR grants made in 2022 or 2021. As of December 31, 2022 there is one 1,000,000 SAR outstanding with a base value of $0.20 and January 2028 expiration.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Stock Incentive Plans** (cont.)

***Prior Stock Option Plan***

The 2007 Stock Incentive Plan is authorized to issue options to acquire a maximum of 952,941 common stock shares. As of December 31, 2021, no future grants for shares of common stock can be issued under this plan. The 2018 Stock Incentive Plan ("2018 Plan") was authorized to issue options to acquire a maximum of 1,500,000 shares. As of December 31, 2021, future grants for 284,154 shares of common stock can be issued under this plan. Options can be granted for a term up to ten years. The 2018 Plan was terminated in 2022

***Prior Stock Appreciation Rights***

The 2018 Stock Appreciation Plan is authorized to issue a maximum of 1,500,000 stock appreciation rights ("SAR"). As of December 31, 2021, available future grants for 500,000 shares of common stock via SAR's can be issued under this plan. Under the Stock Appreciation Plan, on January 16, 2018, the Company granted Mr. Huang, the Company's Chief Executive Officer, 1,000,000 shares in stock appreciation rights for past service. The rights granted shall be subject to the prohibitions and restrictions set forth here in respect to the sale of other disposition of such rights. The rights shall have each have a base value of $0.20 per share. The rights granted have a maturity date of January 16, 2028. Within 90 days following the maturity date, the Company must settle the appreciation amount. The appreciation amount may be paid in common stock, in cash in a combination of the two or in any other form of consideration, as determined by the board and contained in the Stock Appreciation Right Agreement. The Company calculated the fair value of the SARs using the Black Scholes Valuation Model at the date of grant and recorded the entire fair value as compensation expense in 2018 as the SAR's were issued for prior service and there is no additional service obligation. The SAR was classified as an equity instrument. This plan has been terminated in 2022 and grants outstanding under this plan moved to a new plan.

***Determining Fair Value under ASC 718***

The Company records stock-based compensation expense associated with stock options, SAR's and other equity-based compensation using the Black-Scholes-Merton option valuation model for estimating fair value of stock options granted under our plan. The Company amortizes the fair value of stock options on a ratable basis over the requisite service periods, which are generally the vesting periods. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company estimates the volatility of our common stock based on the historical volatility of publicly traded peer companies over the most recent period corresponding with the estimated expected life of the award. The Company bases the risk-free interest rate used in the Black Scholes-Merton option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. The Company has not paid any cash dividends on our common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes-Merton valuation model and adjusts stock-based compensation for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed. The Company recorded stock-based compensation of $546,460 and $898,882 for the years ended December 31, 2022 and 2021, respectively.

***Stock Incentive Plans Activity (Excluding SAR)***

There are currently outstanding 2,367,369 options to acquire common stock at an average exercise price of $0.714 per share outstanding as of December 31, 2022 under the various Stock Option Plans. As of December 31, 2022, there is 751,783 of total unrecognized stock-based compensation related to employee granted stock options that are not vested.

During the year ended December 31, 2022, the Company issued stock option grants to employees for 280,520 shares at an exercise price of $2.88 per share. The stock option grants vest over various terms and expire in five to ten years.

During the year ended December 31, 2021, a former director and an employee forfeited stock option grants for 81,668 shares of the Company's common stock at $1.00 per share.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Stock Incentive Plans** (cont.)

During the year ended December 31, 2021, the Company issued stock option grants to employees, directors and consultants for 915,524 shares at an exercise price of $.00 per share. The stock option grants vest over various terms and expire in five to ten years.

On June 14, 2021, a former director exercised vested stock options grants for14,666 shares of the Company's common stock and paid $14,666.

During the year ended December 31, 2021, a former director and an employee forfeited stock option grants for769,190 shares of the Company's common stock at $1.00 per share.

Activity in the stock incentive plans for the years ended December 31, 2022 and 2021 was as follows:

| | Options Shares | Weighted Average Exercise Price | Option $ |
|---|---|---|---|
| Outstanding as of December 31, 2020 | 2,037,119 | $ 0.409 | $ 832,909 |
| Granted | 915,524 | 1.00 | 915,524 |
| Exercised | (14,666) | (1.00) | (14,666) |
| Forfeitures | (769,190) | 1.00 | (769,190) |
| Outstanding as of December 31, 2021 | 2,168,787 | 0.445 | 964,577 |
| Granted | 280,250 | 2.88 | 807,120 |
| Forfeitures | (81,668) | (1.00) | (81,668) |
| Outstanding as of December 31, 2022 | 2,367,369 | $ 0.714 | $ 1,690,029 |

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2022:

| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life In Years | Weighted Average Exercise Price | Number Exerciseable | Weighted Average Exercise Price Exerciseable | Weighted Average Remaining Life In Years – Vested and Exercisable |
|---|---|---|---|---|---|---|
| $ 0.20 | 1,505,263 | 4.38 | $ 0.20 | 1,505,263 | $ 0.20 | 4.38 |
| 1.00 | 581,856 | 4.45 | 1.00 | 448,892 | 1.00 | 4.58 |
| 2.88 | 280,250 | 4.75 | 2.88 | — | 2.88 | — |
| | 2,367,369 | 4.44 | $ 0.714 | 1,954,155 | $ 0.384 | 4.42 |

The significant weighted-average assumptions relating to the valuation of the Company's stock option grants for the year ended December 31, 2022 were as follows:

| Assumptions | 12/31/2022 | 12/31/2021 |
|---|---|---|
| Estimated stock price | $ 2.88 | $ 3.00 |
| Exercise price | $ 2.88 | $ 1.00 |
| Dividend yield | 0% | 0% |
| Expected life | 5 years | 5 – 6 Years |
| Expected volatility | 70% | 75% |
| Risk free interest rate | 4.06% | 0.86% – 1.74% |

There were stock incentive plan awards outstanding at December 31, 2022 totaling 2,367,369 shares with an aggregate intrinsic value of $5,127,994.

There were no SAR grants in 2022.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. Employee 401(k) Plan**

The Company has a 401(k) plan for its employees. The plan provides for a 3.5% match on up to 6% of deferred salary. The Company expensed $98,534 and $170,404 of contributions during the years ended December 31, 2022 and 2021, respectively.

**10. Related Party Transactions**

In 2020, Victor Huang and Derek Xu, the Founders, officers and directors of the Company, borrowed $3,000,000 ("shareholder advances") from Airship. As of December 31, 2022 and 2021, the Company was owed $1,100,000 by the Founders. Due to the lack of certainty over the payment of interest, the Company will record when received. The shareholders advances bear interest at 5% and during 2022 and 2021 no interest was paid. On February 28, 2023, the Founders transferred its interest in Zeppelin Worldwide, LLC and its subsidiary, Zeppelin Taiwan, Ltd. To the Company.

During the years ended December 31, 2022 and 2021, Zeppelin received from the Company an additional $1,095,000 and $590,000 in cash advances to fund operations which commenced in 2021. These advances between the companies are eliminated in the consolidated balance sheet. As of December 31, 2022 and 2021, Zeppelin owes the Founders $1,100,000 for funds they have provided for the commencement of operations. These balances are not expected to be paid in the next year and are treated as long term liabilities.

Mr. Huang and Mr. Xu own all the Zeppelin membership units. When Zeppelin started, their intent was exploring the technology in-development and determining value for external customers by providing cloud based back-end products. After a period of time for Zeppelin's development it became apparent these efforts would be of value and accretive to the Company. In 2022, the Company began utilizing research and development personnel to further develop the Company's products.

The Company sold a vehicle to a founder on March 30, 2021 for a promissory note in the amount of $80,000. The note has a simple interest rate of 4%, compounded annually, computed daily based on a 360-day year with principal and interest due in March 2023. Interest payments are due annually. The promissory note and interest of $84,844 was repaid during the year ended December 31, 2022.

A condominium in Juanita Beach, Washington was sold to a founder on May 5, 2021 for a secured promissory note in the amount of $750,000. The note has interest of 4% per annum, computed on the diminishing principal balance. Interest commenced on the closing with the first payment due on the first of each month after closing. The note is to be paid in full on or before 24 months from the date of the note. Interest payments are due annually. The promissory note and interest of $794,917 was repaid during the year ended December 31, 2022.

The Company sold the vehicle and the condominium to the founders and recorded a loss of $31,721 on the date of the sale. The Company recorded notes receivable-related parties of $830,000 and accrued interest at 4% of $24,585 as of December 31, 2021. The Company had previously acquired these assets for which the founders were using for a combination of business and personal use.

***Advances***

During the year ended December 31, 2022, Mr. Huang and Mr. Xu advanced the Company $1,900,000 and were repaid $1,300.000, with $600,000 recorded as advances from founders as of December 31, 2022.

**11. Commitments, Contingencies and Legal Proceedings**

***Legal Proceedings***

The Company may from time to time become a party to various legal proceedings arising in the ordinary course of our business. The Company is currently not a party to any pending legal proceeding that is not ordinary routine litigation incidental to our business.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11. Commitments, Contingencies and Legal Proceedings** (cont.)

***Properties and Operating Leases-Right of Use Asset and Lease Liability***

On May 1, 2019, the Company leased 31,765 square feet for its executive offices in Redmond, Washington. The Company's net monthly payment is $44,440. The monthly payment increases approximately 3% each year and the lease expires on April 30, 2024. The Company has two five-year renewal options.

On January 1, 2021, the Company leased offices located in Moorestown, North Carolina. The Company leases 3,621 square feet and the net monthly payment is $4,828. The monthly payment increases approximately 3%-6% annually thereafter. The lease expires on February 28, 2024 and can be extended for one three-year term.

Lease agreements are evaluated to determine whether an arrangement is or contains a lease in accordance with ASC 842,*Leases*. Right of use lease assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The incremental borrowing taking into consideration the Company's credit quality and borrowing rate for similar assets is used in determining the present value of future payments. Lease expense is recorded as general and administrative expenses on the Company's consolidated statements of operations. The Company adopted ASC 842 effective January 1, 2022 and the adoption did not have any impact on previously reported stockholders' deficit.

The Company has entered into operating leases for office and development facilities which range from two to three years and include options to renew. The Company determines whether an arrangement is or contains a lease based upon the unique facts and circumstances at the inception of the lease. Operating lease liabilities and their corresponding right-of-use asses are recorded based upon the present value of the lease payments over the expected lease term. As of December 31, 2022 and January 1, 2022, total operating lease liabilities for remaining long term leases was approximately $832,140 and $1,392,575 respectively. Right of use assets totaled approximately $804,338 and $1,321,570 at December 31, 2022 and January 1, 2022, respectively. In the years ended December 31, 2022 and 2021, the Company recognized $649,655 and $ 820,411, respectively in total lease costs for the leases. Because the rate implicit in each lease is not readily determinable, the Company uses its estimated incremental borrowing rate to determine the present value of the lease payments.

The weighted average remaining lease term for the operating leases was15 months at December 31, 2022 and the weighted average discount rate was7%.

The minimum future lease payments as of December 31, 2022 are as follows:

| **Years Ended December 31,** | **$** |
|---|---|
| 2023 | $ 657,807 |
| 2024 | 210,935 |
| Total remaining payments | 868,742 |
| Less Imputed Interest | (36,602) |
| Total lease liability | 832,140 |
| Less current portion of operating lease liability | (628,371) |
| Operating lease liability, net of current portion | $ 203,769 |

**12. Income Taxes and Employee Retention Tax Credits**

The Company's provision for income tax for 2022 and 2021 excludes the results of operation for Zeppelin which is accounted for as VIE but for which the Company has no legal ownership and is thus not included in Company tax filings. Zeppelin is structured as a limited liability corporation with the profits and losses flowing directly to the owners who are responsible for any taxes. For the years ended December 31, 2022 and 2021, Zeppelin incurred losses of approximately $1,254,000 and $917,000, respectively.

The Company is subject to possible tax examination for the years 2014 through 2022.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. Income Taxes and Employee Retention Tax Credits**(cont.)

For the years ended December 31, 2022 and 2021, the Company's effective tax rate differs from the federal statutory rate principally due to research and development credit carry-forward, research and experimental expenditures, deferred revenue and certain items such loan forgiveness, tax credits and stock-based compensation expense being excluded from the determination of taxable income (loss).

The components of the provision for income taxes for the years ended December 31, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Current: | | |
| Federal | $ 10,000 | $ — |
| State | — | — |
| Total current provision | 10,000 | — |
| | | |
| Deferred: | | |
| Federal | — | — |
| State | — | — |
| Total deferred income taxes | — | — |
| Total provision for income taxes | $ 10,000 | $ — |

The components of deferred tax assets, net as of December 31, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Deferred tax asset: | | |
| Research and development credit, net | $ 1,286,195 | $ 1,223,754 |
| Deferred revenue | 1,112,003 | 1,244,382 |
| Capitalized research and development costs | 620,791 | — |
| Net operating loss carry-forward | 318,302 | 746,250 |
| Capital loss carry-forward | 52,560 | 52,560 |
| Property and equipment and other | 29,971 | 24,928 |
| Total | 3,419,822 | 3,291,874 |
| Valuation allowance | (3,419,822) | (3,291,874) |
| Deferred tax, net | $ — | $ — |

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate (benefit) for the years ended December 31, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Federal statutory tax rate | 21% | 21% |
| R&D credit, net impact | 30% | 3% |
| Nontaxable variable interest loss | (53)% | (4)% |
| Nondeductible stock compensation | (23)% | (4)% |
| Nontaxable PPP loan forgiveness | 48% | 4% |
| Nontaxable ERTC credits | 51% | 0% |
| True up prior year valuation allowance | (50)% | 1% |
| Change in valuation allowance | (26)% | (21)% |
| Effective tax rate | (2)% | 0% |

The Company evaluates uncertain tax positions using the "more likely than not" threshold (i.e., a likelihood of occurrence greater than fifty percent). The recognition threshold is met when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by the relevant taxing authority. Those tax positions failing to qualify for initial recognition are classified as a gross unrecognized tax

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. Income Taxes and Employee Retention Tax Credits**(cont.)

benefit until they meet the more likely than not standard or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. De-recognition of a tax position that was previously recognized occurs when an entity subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained. As of December 31, 2022, the unrecognized tax benefit totals approximately $227,000 which was an increase of approximately $11,000 from the beginning of the year. As of December 31, 2021, the unrecognized tax benefit totals approximately $216,000 which was an increase of approximately $53,000 from the beginning of the year. If the unrecognized benefit were recognized it would have minimal impact on the effective tax rate given the full valuation allowance on the deferred tax asset.

Only the portion of the unrecognized tax benefit that is expected to be paid within one year is classified as a current liability. As a result, liabilities expected to be resolved without the payment of cash (e.g., resolution due to the expiration of the statute of limitations) or are not expected to be paid within one year are not classified as current. The Company has no recorded liabilities at December 31, 2022 and 20221 for unrecognized tax benefits It is the Company's policy to record estimated interest and penalties as income tax expense and tax credits as a reduction in income tax expense.

Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the financial reporting and tax bases of assets and liabilities. Income tax expense is the sum of the tax currently payable and the change in the deferred tax assets and liabilities during the period. Valuation allowances are established when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company assesses the realizability of its deferred tax assets and the need for a valuation allowance based on all positive and negative evidence.

The Company has significant deferred tax assets as a result of temporary differences between the taxable income on our tax returns and GAAP income, R&D tax credit carry forwards. A deferred tax asset generally represents future tax benefits to be received when temporary differences previously reported in our consolidated financial statements become deductible for income tax purposes, or when tax credit carry forwards are utilized on our tax returns. The Company assesses the realizability of our deferred tax assets and the need for a valuation allowance based on the guidance provided in current financial accounting standards.

Significant judgment is required in determining the realizability of our deferred tax assets. The assessment of whether valuation allowances are required considers, among other matters, the nature, frequency and severity of any current and cumulative losses, forecasts of future profitability, the duration of statutory carry forward periods, our experience with loss carry forwards not expiring unused and tax planning alternatives. In analyzing the need for valuation allowances, the Company first considered our history of cumulative operating results for income tax purposes over the past three years in each of the tax jurisdictions in which we operate, our financial performance in recent quarters, statutory carry forward periods and tax planning alternatives. In addition, the Company considered both its near-term and long-term financial outlook. After considering all available evidence (both positive and negative), the Company concluded that recognition of a valuation allowance for all of its deferred tax assets was required at December 31, 2022 and 2021. The valuation allowance increased by approximately $128,000 and $1,113,000 in 2022 and 2021, respectively. As of December 31, 2022 and 2021, the Company has a federal net operating loss carryover totaling approximately $1,500,000 and $2,700,000 after the 2021 tax return was amended. R&D tax credit carryovers total approximately $1,513,000 and $1,440,000, respectively, and begin to expire in 2036. Utilization of net operating losses can be limited if it is determined that a change of control has occurred.

**Employee Retention Tax Credits**

The CARES Act allowed eligible employers to claim employee retention tax credits ("ERTC") for qualified wages paid after March 12, 2020 and before January 1, 2021. The ERTC was extended to June 30, 2021 under the passage of the Taxpayer Certainty and Disaster Relief Act of 2020 ("ACT") which was signed into law on December 27, 2020. We qualified for credits under the provisions of the CARES Act for the entire period subsequent to March 12, 2020 through January 1, 2021 and for the entire period subsequent to January 1, 2021 through June 30, 2021.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. Income Taxes and Employee Retention Tax Credits** (cont.)

On September 8, 2021, the Company applied for ERTC credits for qualifying 2020 wages. The Company filed amended payroll tax returns to claim the credit it believed it was entitled to, $99,132 and $190,983, respectively On April 4, 2022, the Company received $99,826 and $192,793, including interest.

The Company accounted for this in the year they believed collectability was assured. Considering the length of time after year-end and the lack of certainty over the government's handling of ERTC claims, the Company deemed it appropriate and conservative to not record this transaction in the year ended December 31, 2021 but rather in 2022 when the cash received.

On May 25, 2022, the Company applied for ERTC credits for qualifying 2021 wages. The Company filed amended payroll tax returns to claim the credit it believed it was entitled to, $461,043 and $459,614, respectively. The Company received two refunds in January 2023 for $468,880 and $470,970, including interest. The Company recorded the amounts in payroll tax receivable as of December 31, 2022.

**13. Subsequent Events**

The Company evaluated subsequent events, for the purpose of adjustment or disclosure up through September 11, 2023, the date the consolidated financial statements were available to be issued. Subsequent to December 31, 2022, there were the following material transactions that require disclosure:

***Advances***

Since December 31, 2022, Mr. Huang and Mr. Xu advanced the Company $1,150,000 and were repaid $200,000.

**Transfer of Founders Interest in Zeppelin Worldwide, LLC**

On February 28, 2023, the Founders transferred its interest in Zeppelin Worldwide, LLC and its subsidiary, Zeppelin Taiwan, Ltd. to the Company.

**Change of name to Airship AI Holdings, Inc.**

On March 7, 2023, the Company changed its name to Airship AI Holdings, Inc.

**Convertible Promissory Notes**

On June 22, 2023, the Company entered into a Senior Secured convertible Promissory Note with Platinum Capital Partners Inc. The Company received $2 million. As a condition of funding, the Company paid off three small notes and accounts payable totaling $374,000. The promissory note is due and payable in June 2024 and requires principal payments of $2.2 million plus accrued interest at 6% upon maturity in June 2024. The holder of the note has the option to convert to common stock of the Company. Upon the completion of the merger with BYTE, the note is convertible into common shares of the common at the lower of $6.50 or 65% of the average price of stock trades over the past five days with a floor conversion price of $4. In connection with the convertible note transaction, the Company issued warrants to purchase 30,201 shares of common stock with an exercise price of $6.50 upon the conclusion of the BYTE merger.

**Business Combination with BYTE Acquisition Corp. ("BYTE")**

On March 10, 2023, BYTE issued a press release announcing that it has entered into a non-binding letter of intent for a business combination with Airship AI Holdings, Inc. Airship AI, a robust AI-driven edge video, sensor and data management platform for government agencies and enterprises that gathers unstructured data from surveillance cameras and sensors, applies artificial intelligence ("AI") analytics, and provides visualization tools to improve decision making in mission critical environments. Under the terms of the LOI, BYTE and Airship AI would become a combined entity, with Airship AI's existing equity holders rolling 100% of their equity into the combined public company.

**AIRSHIP AI HOLDINGS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Subsequent Events** (cont.)

On June 27, 2023, BYTE Acquisition Corp. ("BYTS" or "Parent"), a Cayman Islands exempted company (which shall de-register from the Register of Companies in the Cayman Islands by way of continuation out of the Cayman Islands and into the State of Delaware so as to migrate to and domesticate as a Delaware corporation prior to the Closing Date, entered into a merger agreement, by and among BYTS, BYTE Merger Sub Inc., a Washington corporation and a direct, wholly owned subsidiary of BYTS ("Merger Sub"), and Airship AI Holdings, Inc., a Washington corporation ("Airship AI" or the "Company") (as it may be amended and/or restated from time to time, the "Merger Agreement").

The Merger Agreement provides that, among other things and upon the terms and subject to the conditions thereof, following the Domestication to a Delaware corporation, the Merger Sub will merge with and into Airship AI (the "Merger"), after which Airship AI will be the surviving corporation (the "Surviving Corporation") and a wholly-owned subsidiary of BYTS. The transactions contemplated by the Merger Agreement together with the other related agreements are referred to herein as the "Business Combination." The time of the closing of the Business Combination is referred to herein as the "Closing." The date of the Closing is referred to herein as the "Closing Date." In connection with the Business Combination, BYTS will be renamed "Airship AI Holdings, Inc." ("Airship Pubco"). The Merger will become effective upon the filing of the articles of merger with the Secretary of State of the State of Washington or at such later time as is agreed to by the parties to the Merger Agreement and specified in the articles of merger.

Pursuant to the Business Combination Agreement, BYTE will acquire Airship AI for a pre-money equity value of $225 million. In connection with the transaction, BYTE will issue 22.5 million newly issued shares to current shareholders of Airship AI. Equity holders of Airship AI as of the date of the business combination agreement may also receive the contingent right to receive up to 5 million additional shares, subject to Airship AI's achievement of performance milestones. BYTE has executed non-redemption agreements totaling $7 million. The Company is expected to receive $2 million net of merger transaction expenses from the non-redemption agreements.

## PART II - INFORMATION NOT REQUIRED IN PROSPECTUS

### Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the expenses in connection with this registration statement.

| | Amount to be paid |
|---|---|
| SEC registration fee | $ ☐ |
| Accounting fees and expenses | ☐ |
| Legal fees and expenses | ☐ |
| Printing and miscellaneous expenses | ☐ |
| Total | $ |

### Item 14. Indemnification of Directors and Officers.

Section 145(a) of the DGCL provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), because he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Section 145(b) of the DGCL provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor because the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made with respect to any claim, issue or matter as to which he or she shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, he or she is fairly and reasonably entitled to indemnity for such expenses that the Court of Chancery or other adjudicating court shall deem proper.

Section 145(g) of the DGCL provides, in general, that a corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify the person against such liability under Section 145 of the DGCL.

The Charter contains provisions limiting the liability of the members of the Company's board of directors, and the Company's bylaws provide that the Company will indemnify each of the members of the Company's board of directors and officers to the fullest extent permitted under Delaware law. The Company's bylaws will also provide the board of directors with discretion to indemnify employees and agents of the Company.

The Company has entered into indemnification agreements with each of its directors and executive officers and certain other key employees. The indemnification agreements provide that the Company will indemnify each of its directors and executive officers and such other key employees against any and all expenses incurred by such director, executive officer or other key employee because of his or her status as one of the Company's directors, executive officers or other key employees, to the fullest extent permitted by Delaware law, the Charter and the Company's bylaws. In addition, the indemnification agreements will provide that, to the fullest extent permitted by Delaware law, the Company will advance all expenses incurred by its directors, executive officers and other key employees in connection with a legal proceeding involving his or her status as a director, executive officer or key employee.

**Item 15. Recent Sales of Unregistered Securities.**

We issued the foregoing securities in transactions not involving an underwriter and not requiring registration under Section 5 of the Securities Act of 1933, as amended, in reliance on the exemption afforded by Section 4(a)(2) thereof.

On January 22, 2021, the Sponsor purchased an aggregate of 8,625,000 BYTS Class B ordinary shares (the "Founder Shares") for an aggregate price of $25,000 at an average price of approximately $0.003 per share. The Founder Shares included an aggregate of up to 1,125,000 shares subject to forfeiture by the Sponsor to the extent that the underwriters' over-allotment was not exercised in full or in part, so that the number of Founder Shares would collectively represent 20% of the Company's issued and outstanding shares upon the completion of the IPO (excluding the private placement shares). On April 7, 2021, the underwriter exercised its over-allotment option in part, and 532,687 Founder Shares were subsequently forfeited by the Sponsor. Effective as of March 27, 2023, pursuant to the terms of BYTS' Cayman constitutional documents, the Sponsor elected to convert each outstanding Class B ordinary share held by it on a one-for-one basis into Class A ordinary shares of BYTS, with immediate effect. On June 26, 2023, BYTS issued one Class B ordinary share to the Sponsor in connection with the Domestication. Such securities were issued in connection with our organization pursuant to exemption from registration contained in Section 4(a)(2) of the Securities Act. Our Sponsor is an accredited investor for purposes of Rule 501 of Regulation D.

In addition, at the time of the IPO completed on March 23, 2021, the Sponsor purchased an aggregate of 1,030,000 private placement units at a price of $10.00 per unit for an aggregate purchase price of $10,300,000, in a private placement that closed simultaneously with the closing of the IPO. Each unit consisted of one share of BYTS Class A ordinary share and one-half of one Private Warrant, and each whole Private Warrant entitling the holder to purchase one share of BYTS Class A ordinary share at a price of $11.50 per share. These issuances were made pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act. No underwriting discounts or commissions were paid with respect to such sales.

Following the closing of the Business Combination, on January 2, 2024, the Company issued an aggregate of 532,945 shares of common stock to Roth Capital Partners LLC, in satisfaction of fees payable to Roth Capital Partners LLC for financial services and placement agent duties provided to Airship AI in connection with the Business Combination. This issuance was made pursuant to the exemption from registration under the Securities Act in reliance on Section 4(a)(2).

On February 2, 2024, the Company issued in a private placement the Platinum Convertible Note to Platinum in the principal amount of $2,000,000 (the "Platinum Convertible Note"). At the option of Platinum, the principal amount of the Platinum Convertible Note plus any accrued but unpaid interest is convertible into shares of Common Stock at a conversion price per share equal to the lower of (i) $3.69717, subject to appropriate adjustment as provided in the Platinum Convertible Note, and (ii) 65% of the VWAP for the Common Stock for the preceding five trading days immediately prior to any conversion, but in no event below $2.27518, subject to appropriate adjustment as provided in the Platinum Convertible Note. In connection with the issuance of the Platinum Convertible Note, the Company also issued to Platinum the Platinum Warrant to purchase 189,334 shares of Common Stock at an exercise price per share of $3.69717. The term of the Platinum Warrant expires on June 22, 2028. These securities were offered and sold in reliance upon the exemption from the registration requirements under Section 4(a)(2) under the Securities Act and/or Regulation D promulgated thereunder .

**Item 16. Exhibits and Financial Statement Schedules.**

(a) *Exhibits*

| Exhibit No. | Description |
|---|---|
| 2.1† | Merger Agreement, dated June 27, 2023, by and among BYTE Acquisition Corp., BYTE Merger Sub, Inc. and Airship AI Holdings, Inc. (incorporated by reference to Exhibit 2.1 to BYTE Acquisition Corp.'s Current Report on Form 8-K filed with the SEC on June 27, 2023). |
| 2.2 | First Amendment to Merger Agreement, dated September 22, 2023, by and among BYTE Acquisition Corp., BYTE Merger Sub, Inc. and Airship AI Holdings, Inc. (incorporated by reference to Exhibit 2.1 to BYTE Acquisition Corp.'s Current Report on Form 8-K filed with the SEC on September 26, 2023). |
| 3.1 | Certificate of Incorporation of BYTE Acquisition Corp. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 27, 2023). |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of BYTE Acquisition Corp. (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed with the SEC on December 27, 2023). |
| 3.3 | Bylaws of Airship AI Holdings, Inc. (incorporated by reference to Exhibit 3.3 to the registrant's Current Report on Form 8-K filed with the SEC on December 27, 2023). |
| 4.1 | Specimen Common Stock Certificate of Airship AI Holdings, Inc. |
| 4.2 | Specimen Warrant Certificate (incorporated by reference to Exhibit 4.3 to BYTE Acquisition Corp.'s Registration Statement on Form S-1 (File No. 333-253618), filed with the SEC on February 26, 2021). |
| 4.3 | Warrant Agreement, dated March 18, 2021, by and between BYTE Acquisition Corp. and Continental Stock Transfer & Trust Company, as warrant agent (incorporated by reference to Exhibit 4.1 to BYTE Acquisition Corp.'s Current Report on Form 8-K filed with the SEC on March 23, 2021). |
| 4.4 | Amended and Restated Common Stock Purchase Warrant issued February 2, 2024 by Airship AI Holdings, Inc. to Platinum Capital Partners Inc. (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on February 6, 2024). |
| 5.1* | Opinion of Loeb & Loeb LLP. |
| 10.1 | Letter Agreement, dated March 18, 2021, by and among BYTE Acquisition Corp., its officers, its directors and Byte Holdings LP (incorporated by reference to Exhibit 10.1 of BYTE Acquisition Corp.'s Current Report on Form 8-K filed with the SEC on March 23, 2021). |
| 10.2 | Parent Support Agreement, dated as of June 27, 2023, by and among BYTE Holdings LP, BYTE Acquisition Corp., and Airship AI Holdings, Inc. ((incorporated by reference to Exhibit 10.1 to BYTE Acquisition Corp.'s Current Report on Form 8-K filed with the SEC on June 27, 2023). |
| 10.3 | Letter Amendment to Form of Bylaws, dated December 20, 2023, by and between BYTE Acquisition Corp. and Airship AI Holdings, Inc. (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 27, 2023). |
| 10.4 | Amended and Restated Registration Rights Agreement, dated December 21, 2023 by and among Airship AI Holdings, Inc. and certain of its stockholders (incorporated by reference to Exhibit 10.8 to the registrant's Current Report on Form 8-K filed with the SEC on December 28, 2023). |
| 10.5 | Earnout Escrow Agreement, dated December 21, 2023 by and between Airship AI Holdings, Inc. and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 10.9 to the registrant's Current Report on Form 8-K filed with the SEC on December 28, 2023). |
| 10.6 | Form of Indemnification Agreement (incorporated by reference to Exhibit 10.10 to the registrant's Current Report on Form 8-K filed with the SEC on December 28, 2023). |
| 10.7+ | 2023 Airship AI Holdings, Inc. Equity Incentive Plan (incorporated by reference to Annex C to BYTE Acquisition Corp.'s prospectus filed with the SEC on dated December 5, 2023.). |
| 10.8 | Lease, dated as of December 22, 2020, by and between JDL Digital Systems Inc. DBA Airship Industries, Inc. and Langtree Development Company, LLC (incorporated by reference to Exhibit 10.15 of BYTE Acquisition Corp.'s Amendment No. 1 to Registration Statement on Form S-4 (File No. 333-274464), filed with the SEC on October 18, 2023). |
| 10.9 | Sublease Agreement, effective July 13, 2023, by and between Helion Energy, Inc. and JDL Systems, Inc. (incorporated by reference to Exhibit 10.16 of BYTE Acquisition Corp.'s Amendment No. 1 to Registration Statement on Form S-4 (File No. 333-274464), filed with the SEC on October 18, 2023). |
| 10.10 | Senior Secured Convertible Promissory Note issued June 22, 2023 by Airship AI Holdings, Inc. to Platinum Capital Partners Inc. (incorporated by reference to Exhibit 10.17 of BYTE Acquisition Corp.'s Amendment No. 1 to Registration Statement on Form S-4 (File No. 333-274464), filed with the SEC on October 18, 2023). |
| 10.11 | Amended and Restated Senior Secured Convertible Promissory Note issued February 2, 2024 by Airship AI Holdings, Inc. to Platinum Capital Partners Inc. (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the SEC on February 6, 2024). |
| 10.12 | Amended and Restated Security Agreement dated February 2, 2024 between Airship AI Holdings, Inc. and Platinum Capital Partners Inc. (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed with the SEC on February 6, 2024). |
| 10.13 | Amended and Restated Guaranty dated February 2, 2024 between Airship AI Holdings, Inc., Platinum Capital Partners Inc. (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed with the SEC on February 6, 2024). |
| 10.14 | Amended and Restated Subordination Agreement dated February 2, 2024 between Airship AI Holdings, Inc. and Platinum Capital Partners Inc. (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed with the SEC on February 6, 2024). |
| 16.1 | Letter from Marcum LLP, dated December 28, 2023 (incorporated by reference to Exhibit 16.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 28, 2023). |
| 21.1 | List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 28, 2023). |
| 23.1 | Consent of Marcum LLP. |
| 23.2 | Consent of BPM LLP — independent registered public accounting firm. |
| 23.3* | Consent of Loeb & Loeb LLP (included as part of Exhibit 5.1 hereto). |
| 24.1 | Power of Attorney (contained on the signature page to this registration statement). |
| 107 | Calculation of Registration Fee Table |

* To be filed by amendment.

\+ Indicates a management or compensatory plan.

† Certain schedules and similar attachments to this Exhibit have been omitted in accordance with Item 601(a)(5) of Regulation S-K. The registrant agrees to furnish supplementally a copy of any omitted exhibit or schedule to the SEC upon request.

**Item 17. Undertakings.**

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Redmond, State of Washington on February 6, 2024.

**Airship AI Holdings, Inc.**

By: /s/ Victor Huang
Name: Victor Huang
Title: Chief Executive Officer

## POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Victor Huang and Mark E. Scott as the individual's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for the person and in his or her name, place and stead, in any and all capacities, to sign this Registration Statement and any or all amendments, including post-effective amendments to the Registration Statement, including a prospectus or an amended prospectus therein and any Registration Statement for the same offering that is to be effective upon filing pursuant to Rule 462 under the Securities Act, and all other documents in connection therewith to be filed with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact as agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement and power of attorney have been signed by the following persons in the capacities and on February 6, 2024.

| Signature | Title |
|---|---|
| /s/ Victor Huang<br>Victor Huang | Chief Executive Officer and Chairman of the Board<br>(Principal Executive Officer) |
| /s/ Mark E. Scott<br>Mark E. Scott | Chief Financial Officer<br>(Principal Financial and Accounting Officer) |
| /s/ Derek Xu<br>Derek Xu | Chief Operating Officer and Director |
| /s/ Peeyush Ranjan<br>Peeyush Ranjan | Director |
| /s/ Louis Lebedin<br>Louis Lebedin | Director |
| /s/ Amit Mital<br>Amit Mital | Director |

**EXHIBIT 4.1**

**NUMBER** **SHARES**

**SEE REVERSE FOR CERTAIN DEFINITIONS**

**CUSIP 008940 108**

**AIRSHIP AI HOLDINGS, INC.**
**INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE**

**COMMON STOCK**

This Certifies that

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, PAR VALUE OF $0.0001 (THE "COMMON STOCK"), OF

**AIRSHIP AI HOLDINGS, INC.**
**(THE "COMPANY")**

transferable on the books of the Company in person or by duly authorized attorney upon surrender of this certificate properly endorsed.

This certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar of the Company.

Witness the facsimile signatures of its duly authorized officers.

Chief Executive Officer

Chief Financial Officer

**AIRSHIP AI HOLDINGS, INC.**

The Company will furnish without charge to each stockholder who so requests a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof of the Company and the qualifications, limitations, or restrictions of such preferences and/or rights. This certificate and the shares represented thereby are issued and shall be held subject to all the provisions of the Company's Certificate of Incorporation, as the same may be amended from time to time (the "***Charter***") and resolutions of the Board of Directors providing for the issue of securities (copies of which may be obtained from the secretary of the Company), to all of which the holder of this certificate by acceptance hereof assents. The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| TEN COM | — | as tenants in common | UNIF GIFT MIN ACT | — | _____ (Cust) | Custodian | _____ (Minor) |
| TEN ENT | — | as tenants by the entireties | | | | | |

JT TEN — as joint tenants with right of survivorship and not as tenants in common under Uniform Gifts to Minors Act

(State)

Additional abbreviations may also be used though not in the above list.

*For value received,* *hereby sells, assigns and transfers unto*

(PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER(S) OF ASSIGNEE(S))

(PLEASE PRINT OR TYPEWRITE NAME(S) AND ADDRESS(ES), INCLUDING ZIP CODE, OF ASSIGNEE(S))

shares of the Common Stock represented by the within Certificate, and hereby irrevocably constitutes and appoints

Attorney to transfer the said shares of Common Stock on the books of the within named Company with full power of substitution in the premises.

Dated:

---

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed:
By

---

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (OR ANY SUCCESSOR RULE).

**EXHIBIT 107**

**Calculation of Filing Fee Table**

**FORM S-1**
**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**
(Form Type)

**Airship AI Holdings, Inc.**
(Exact Name of Registrant As Specified in its Charter)

Table 1: Newly Registered Securities

| | Security Type | Security Class Title | Fee Calculation Rule | Amount Registered | Proposed Maximum Offering Price Per Share | Maximum Aggregate Offering Price | Fee Rate | Amount of Registration Fee |
|---|---|---|---|---|---|---|---|---|
| | | | **Newly Registered Securities** | | | | | |
| **Fees to Be Paid** | Equity | Common Stock, $0.0001 par value per share | 457(c) | 1,019,989(1) | 1.48(2) | $ 1,509,583.72 | 0.0001476 | $ 222.81 |
| | Equity | Common Stock issuable upon exercise of the Warrants | 457(g) | 2,689,902 | $ 1.77(3) | 4,761,126.54 | 0.0001476 | $ 702.74 |
| | Equity | Common Stock issuable upon exercise of the Platinum Warrants | 457(g) | 189,334 | $ 3.69717(4) | 699,999.98 | 0.0001476 | $ 103.32 |
| | Equity | Common Stock issuable upon exercise of the Options | 457(g) | 1,758,105 | 0.12(5) | 210,972.6 | 0.0001476 | 31.14 |
| **Fees Previously Paid** | — | — | — | — | — | — | — | — |
| | | | | **Total Offering Amounts** | | $ 7,181,682.84 | 0.0001476 | 1,060.01 |
| | | | | **Total Fees Previously Paid** | | - | | - |
| | | | | **Total Fee Offsets** | | - | | - |
| | | | | **Net Fees Due** | | | | 1,060.01 |

**Table 3: Combined Prospectuses**

| Security Type | Security Class Title | Amount of Securities Previously Registered | Maximum Aggregate Offering Price | Form Type | File Number | Initial Effective Date |
|---|---|---|---|---|---|---|
| Equity | Common Stock underlying the Public Warrants (6) | 16,184,612(7) | $ 190,331,037.12 | S-4 | 333-274464 | December 5, 2023 |

(1) Represents 1,019,989 shares of Common Stock issuable upon the conversion of an amended and restated senior secured convertible promissory note issued by us to Platinum Capital Partners Inc. ("Platinum") in a private placement on February 2, 2024.
(2) Based on the average of high price of $1.52 and low price of $1.44 of the Registrant's Common Stock on the Nasdaq Global Market on February 5, 2024.
(3) Warrants are exercisable at $1.77 per share of Common Stock.
(4) Platinum Warrants are exercisable at $3.69717 per share of Common Stock.
(5) Options are exercisable at $0.12 per share of Common Stock.
(6) No registration fee is payable in connection with the 16,184,612 shares of Common Stock previously registered on a registration statement on Form S-4 (File No. 333-274464), which was declared effective on December 5, 2023 (the "Prior Registration Statement"), because such shares are being transferred from the Prior Registration pursuant to Rule 429(b) under the Securities Act.
(7) 16,184,612 shares of Common Stock registered under the Prior Registration Statement are included this registration statement. Pursuant to Rule 429(b) under the Securities Act, this registration statement upon effectiveness, will constitute post-effective amendments to the Prior Registration Statement, which post-effective amendments shall hereafter become effective concurrently with the effectiveness of this registration statement and in accordance with Section 8(c) of the Securities Act. If securities previously registered under the Prior Registration Statement are offered and sold before the effective date of this registration statement, the amount of previously registered securities so sold will not be included in the prospectus hereunder.

**EXHIBIT 23.1**

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the inclusion in this Registration Statement of Airship AI Holdings, Inc. (formerly known as BYTE Acquisition Corp.) on Form S-1 of our report dated March 30, 2023, which includes an explanatory paragraph as to BYTE Acquisition Corp.'s ability to continue as a going concern, with respect to our audits of the financial statements of BYTE Acquisition Corp. (now known Airship AI Holdings, Inc.) as of December 31, 2022 and 2021 and for the year ended December 31, 2022 and for the period from January 8, 2021 (inception) through December 31, 2021, which report appears in the Prospectus, which is part of this Registration Statement. We were dismissed as auditors on December 27, 2023, and, accordingly, we have not performed any audit or review procedures with respect to any financial statements incorporated by reference to this Registration Statement for the periods after the date of our dismissal. We also consent to the reference to our Firm under the heading "Experts" in such Prospectus.

/s/ Marcum llp

Marcum llp
Houston, TX
February 6, 2024

**EXHIBIT 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the inclusion in this Registration Statement on Form S-1 of our report dated September 11, 2023, relating to the consolidated financial statements of Airship AI Holdings, Inc. for the year ended December 31, 2022 which appears in such registration statement. We also consent to the reference to us under the caption "Experts" in such Registration Statement.

*/s/ BPM LLP*

Santa Rosa, California
February 6, 2024