UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from _______ to _______

Commission File Number: 001-39897

SARCOS TECHNOLOGY AND ROBOTICS CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	**85-2838301**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
650 South 500 West, Suite 150 **Salt Lake City, Utah**	**84101**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (888) 927-7296

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	STRC	The Nasdaq Global Market
Warrants to purchase Common Stock	STRCW	The Nasdaq Global Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of July 27, 2023, the registrant had 25.8 million shares of Common Stock, $0.0001 par value per share, outstanding.

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All share and per share amounts, including the exercise or conversion price of any of our securities, as applicable, shown in this report have been adjusted to reflect the occurrence of a 1-for-6 reverse split of our common stock that occurred on July 5, 2023 (the "Reverse Stock Split").

Summary Risk Factors

Our business is subject to numerous risks and uncertainties, including those highlighted in Part II, Item 1A Risk Factors of this Report. The following is a summary of the principal risks we face:

- We are an early stage company with a history of losses, and expect to incur significant expenses for the foreseeable future.
- We have yet to achieve positive operating cash flow, and our ability to generate positive cash flow is uncertain.
- We have very limited experience commercializing our products and may not be able to do so efficiently or effectively.
- Commercialization of our systems, solutions and software may be delayed beyond our current expectations and therefore initial delivery to customers and receipt of anticipated revenue could be delayed.
- If we are successful in commercializing our products, our revenue will be concentrated in a limited number of products for the foreseeable future.
- With our focus products still under development, we have limited current customers and no binding orders for commercial versions of our systems, solutions and software, and expected customer trials and discussions with respect to those products may not result in binding orders.
- We may fail to attract or retain customers at sufficient rates or at all.
- We have decided to focus on a standard product sales model for our robotic systems and solutions, which may not prove to be effective.
- Our products represent new product categories or advancements, and important assumptions about market demand, pricing, adoption rates and sales cycles for our current and future products may be inaccurate.
- Even if we successfully market our products, the purchase, adoption and use of the products may be materially and negatively impacted if the employees of our customers resist the use and adoption of the products.
- We operate in a competitive industry that is subject to rapid technological change, and we expect competition to increase.
- We may not be able to complete or enhance our product offerings through our research and development efforts.
- Our ability to develop and manufacture products of sufficient quality on schedule and on a large scale is unproven, and delays in the design, production and launch of our products could harm our business, prospects, financial condition and operating results.
- We are dependent on our suppliers, some of which are currently single, sole or limited source suppliers, and any inability of these suppliers to deliver necessary components of our products at prices, volumes, performance, timing and specifications acceptable to us, could have a material adverse effect on our business, prospects, financial condition and operating results. We have not yet identified all of the suppliers that we are likely to rely on to support future commercialization of our products.
- We rely heavily on supply chain reliability and predictability and continued disruption in our supply chain could have a material adverse impact on operations and commercialization of our core systems.
- Design or manufacturing flaws, defects, glitches, bugs or malfunctions in our products, including the software that operates them, failure of our products to perform as expected, connectivity issues or user errors can result in product recalls, lower than expected return on investment for customers, harm to users and significant safety concerns, each of which could materially and adversely affect our results of operations, financial condition or reputation.
- We have no experience maintaining or servicing our products at a large scale.
- Our expected transition to an outsourced manufacturing business model may not be successful, which could harm our ability to deliver products and recognize revenue.
- Our business and prospects depend significantly on our ability to build our brand. We may not succeed in continuing to establish, maintain and strengthen our brand, and our brand and reputation could be harmed by negative publicity regarding us or our products.
- Our management team has broad discretion in making strategic decisions to execute our growth plans, and our management's decisions may not be successful in achieving our business objectives or may have unintended consequences that negatively impact our growth prospects.

- If we fail to effectively manage our growth, we may not be able to design, develop, manufacture, market and launch our products successfully.
- We may be unable to adequately control the costs associated with our operations.
- We expect to incur substantial research and development costs and devote significant resources to identifying and commercializing new and current products, which could significantly reduce our profitability and may never result in revenue.
- Our business plans require a significant amount of capital. Our future capital needs may require us to sell additional equity or debt securities that may dilute our stockholders or introduce covenants that may restrict our operations or our ability to pay dividends.
- Our recent initiatives to improve our cost structure, including significant workforce reductions, may not result in the anticipated savings, could result in total costs and expenses that are greater than expected and could disrupt our business.
- Our financial results may vary significantly from period to period due to fluctuations in our operating costs, product demand and other factors.
- We are or may be subject to risks associated with strategic alliances or acquisitions and may not be able to identify adequate strategic relationship opportunities, or form strategic relationships, in the future.
- Our operating and financial projections rely on management assumptions and analyses. If these assumptions or analyses prove to be incorrect, our actual operating results may be materially different from our forecasted results.
- We are highly dependent on the services of our senior management and other key employees and, if we are unable to attract and retain a sufficient number of qualified employees, our ability to design, manufacture and launch our products, operate our business and compete could be harmed.
- Our management as a group has limited experience in operating a publicly-traded company.
- If we fail to maintain and strengthen effective systems of disclosure controls and procedures and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be adversely affected.
- Adverse events or perceptions affecting the financial services industry could adversely affect our operating results, liquidity, financial condition and prospects.
- We may become subject to new or changing governmental regulations relating to the design, manufacturing, marketing, distribution, servicing or use of our products, and a failure to comply with such regulations could lead to withdrawal or recall of our products from the market, delay our projected revenue, increase costs or make our business unviable if we are unable to modify our products to comply.
- Our success depends in part on our ability to obtain and maintain protection for the intellectual property relating to or incorporated into our products.
- We may not be able to protect our intellectual property rights in all countries.
- Our reverse stock split to regain compliance with the Nasdaq Global Market Minimum Bid Price Requirement may not result in a proportional increase in the per share price of our common stock and may decrease the liquidity of our common stock.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

SARCOS TECHNOLOGY AND ROBOTICS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(*in thousands, except share data*)

	As of	
	June 30, 2023 (unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 25,566	$ 35,159
Marketable securities	49,579	79,337
Accounts receivable	1,280	1,866
Unbilled receivables	1,527	4,160
Inventories, net	3,723	3,562
Prepaid expenses and other current assets	3,594	5,015
Total current assets	85,269	129,099
Property and equipment, net	6,763	7,640
Intangible assets, net	17,479	19,116
Operating lease assets	10,692	11,283
Other non-current assets	463	487
Total assets	$ 120,666	$ 167,625
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,597	$ 3,620
Accrued liabilities	4,049	6,025
Current operating lease liabilities	1,040	887
Total current liabilities	9,686	10,532
Operating lease liabilities	11,736	12,387
Other non-current liabilities	195	256
Total liabilities	21,617	23,175
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, $0.0001 par value, 165,000,000 shares authorized as of June 30, 2023, and December 31, 2022; 25,841,889 and 25,708,519 shares issued and outstanding as of June 30, 2023, and December 31, 2022, respectively	3	3
Additional paid-in capital	451,815	447,085
Accumulated other comprehensive loss	(12)	(17)
Accumulated deficit	(352,757)	(302,621)
Total stockholders' equity	99,049	144,450
Total liabilities and stockholders' equity	$ 120,666	$ 167,625

See accompanying notes to the condensed consolidated financial statements.

SARCOS TECHNOLOGY AND ROBOTICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(*in thousands, except share and per share data*)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue, net	$ 1,277	$ 3,038	$ 3,573	$ 3,781
Operating expenses:				
Cost of revenue (exclusive of items shown separately below)	943	3,146	2,729	3,634
Research and development	11,706	7,569	21,109	13,450
General and administrative	8,252	18,146	17,987	35,938
Sales and marketing	4,410	2,586	8,151	4,797
Intangible amortization expense	819	574	1,638	574
Asset write-down and restructuring	5,106	—	5,106	—
Total operating expenses	31,236	32,021	56,720	58,393
Loss from operations	(29,959)	(28,983)	(53,147)	(54,612)
Interest income, net	874	148	1,973	159
Gain on warrant liability	439	4,113	3	10,527
Other (loss) income, net	(11)	(2)	1,038	—
Loss before income tax (expense) benefit	(28,657)	(24,724)	(50,133)	(43,926)
Income tax (expense) benefit	(3)	1,606	(3)	1,606
Net loss	$ (28,660)	$ (23,118)	$ (50,136)	$ (42,320)
Net loss per share				
Basic and diluted	$ (1.12)	$ (0.95)	$ (1.97)	$ (1.79)
Weighted-average shares used in computing net loss per share				
Basic and diluted	25,512,057	24,379,549	25,491,654	23,685,766

See accompanying notes to the condensed consolidated financial statements.

SARCOS TECHNOLOGY AND ROBOTICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(*in thousands*)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net loss	$ (28,660)	$ (23,118)	$ (50,136)	$ (42,320)
Other comprehensive (loss) income:				
Change in unrealized (loss) gain on available-for-sale investments	(54)	—	5	—
Total other comprehensive (loss) income	(54)	—	5	—
Comprehensive loss	$ (28,714)	$ (23,118)	$ (50,131)	$ (42,320)

See accompanying notes to the condensed consolidated financial statements.

SARCOS TECHNOLOGY AND ROBOTICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(in thousands, except share data)

	Common Stock Class A		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2021	22,953,510	$ 2	$ 359,451	$ —	$ (145,491)	$ 213,962
Stock-based compensation	—	—	10,850	—	—	10,850
Common stock issued upon vesting of restricted stock awards and restricted stock units	335,649	—	—	—	—	—
Shares repurchased for payment of tax withholdings and other	(132,315)	—	(5,250)	—	—	(5,250)
Exercise of stock options	13,930	—	65	—	—	65
Net loss	—	—	—	—	(19,202)	(19,202)
Balance at March 31, 2022	23,170,774	$ 2	$ 365,116	$ —	$ (164,693)	$ 200,425
Stock-based compensation	—	—	10,270	—	—	10,270
Common stock issued upon vesting of restricted stock awards and restricted stock units	233,811	—	—	—	—	—
Shares repurchased for payment of tax withholdings and other	(77,397)	—	(1,342)	—	—	(1,342)
Exercise of stock options	248,734	—	486	—	—	486
Common stock and assumed equity awards in connection with a business acquisition	1,795,446	—	59,556	—	—	59,556
Net loss	—	—	—	—	(23,118)	(23,118)
Balance at June 30, 2022	25,371,368	$ 2	$ 434,086	$ —	$ (187,811)	$ 246,277

	Common Stock Class A		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2022	25,708,519	$ 3	$ 447,085	$ (17)	$ (302,621)	$ 144,450
Stock-based compensation	—	—	2,664	—	—	2,664
Common stock issued upon vesting of restricted stock awards and restricted stock units	7,204	—	—	—	—	—
Shares repurchased for payment of tax withholdings and other	(2,170)	—	35	—	—	35
Other comprehensive gain	—	—	—	59	—	59
Net loss	—	—	—	—	(21,476)	(21,476)
Balance at March 31, 2023	25,713,553	$ 3	$ 449,784	$ 42	$ (324,097)	$ 125,732
Stock-based compensation	—	—	2,070	—	—	2,070
Common stock issued upon vesting of restricted stock awards and restricted stock units	151,327	—	—	—	—	—
Shares repurchased for payment of tax withholdings and other	(22,991)	—	(39)	—	—	(39)
Other comprehensive loss	—	—	—	(54)	—	(54)
Net loss	—	—	—	—	(28,660)	(28,660)
Balance at June 30, 2023	25,841,889	$ 3	$ 451,815	$ (12)	$ (352,757)	$ 99,049

See accompanying notes to the condensed consolidated financial statements.

SARCOS TECHNOLOGY AND ROBOTICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net loss	$ (50,136)	$ (42,320)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	4,734	21,120
Depreciation of property and equipment	843	594
Amortization of intangible assets	1,638	574
Change in fair value of warrant liability	(3)	(10,527)
Amortization of investment discount	(1,365)	—
Asset write-down and restructuring	5,106	—
Changes in operating assets and liabilities		
Accounts receivable	586	463
Unbilled receivable	2,634	(635)
Inventories	(4,588)	(424)
Prepaid expenses and other current assets	1,420	3,941
Other non-current assets	615	356
Accounts payable	1,005	(401)
Accrued liabilities	(1,823)	1,242
Other non-current liabilities	(651)	(1,907)
Net cash used in operating activities	(39,985)	(27,924)
Cash flows from investing activities:		
Purchases of property and equipment	(673)	(690)
Acquisition of a business, net of cash acquired	—	(29,687)
Purchases of marketable securities	(48,872)	(79,507)
Maturities of marketable securities	80,000	—
Net cash provided by (used in) investing activities	30,455	(109,884)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	551
Shares repurchased for payment of tax withholdings	(61)	(6,596)
Payment of obligations under capital leases	(2)	(2)
Net cash used in financing activities	(63)	(6,047)
Net decrease in cash, cash equivalents	(9,593)	(143,855)
Cash, cash equivalents at beginning of period	35,159	217,114
Cash, cash equivalents at end of period	$ 25,566	$ 73,259
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 3	$ —
Supplemental disclosure of non-cash activities:		
Common stock and assumed equity awards in connection with a business acquisition	$ —	$ 59,556
Purchases of property and equipment included in accounts payable at period-end	$ 12	$ —

See accompanying notes to the condensed consolidated financial statements.

1. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Business

Sarcos Technology and Robotics Corporation (the "Company" or "Sarcos") is a technology leader in the design, development and manufacture of advanced robotic systems, solutions and software that redefine human possibilities. The Company designs, develops and produces highly-dexterous mobile robotic systems and solutions for use in dynamic and unstructured environments and develops related software, including its AI/ML (artificial intelligence/machine learning) software platform to enable generalizable autonomy.

Basis of Presentation and Consolidation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

The condensed consolidated financial statements as of June 30, 2023, are unaudited. The condensed consolidated balance sheet as of December 31, 2022, included herein was derived from the audited consolidated financial statements as of that date. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. As such, the information included herein should be read in conjunction with the consolidated financial statements and accompanying notes as of and for the year ended December 31, 2022, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 16, 2023.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation. The Company's fiscal year begins on January 1 and ends on December 31.

In the opinion of the Company's management, the unaudited condensed consolidated financial statements include all adjustments necessary for fair financial statement presentation. All adjustments are of a normal recurring nature. Interim results are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending December 31, 2023.

Business Combination

On September 24, 2021 (the "Closing Date"), the Company consummated the business combination (the "Business Combination") pursuant to the terms of the Agreement and Plan of Merger, dated as of April 5, 2021, by and among Rotor Acquisition Corp. ("Rotor"), Rotor Merger Sub Corp., a Delaware corporation, and a direct, wholly-owned subsidiary of Rotor ("Merger Sub"), and Sarcos Corp., a Utah corporation ("Old Sarcos") and Amendment No. 1 to the Agreement and Plan of Merger, dated as of August 28, 2021 (the "Amendment" and the Original Merger Agreement, as amended, the "Merger Agreement"), by and among Rotor, Merger Sub and Old Sarcos. Pursuant to the terms of the Merger Agreement, the Business Combination between Rotor and Old Sarcos was effected through the merger of Merger Sub with and into Old Sarcos, with Old Sarcos continuing as the surviving corporation (the "Merger") and a wholly-owned subsidiary of Rotor. On the Closing Date, Rotor changed its name from Rotor Acquisition Corp. to Sarcos Technology and Robotics Corporation.

Immediately prior to the effective time of the Merger (the "Effective Time"), all issued and outstanding warrants to purchase shares of Class A common stock of Old Sarcos were net exercised and all issued and outstanding shares of preferred stock of Old Sarcos were converted into common stock of Old Sarcos (collectively, the "Old Sarcos Common Stock"). Pursuant to the terms of the Merger Agreement, at the Effective Time:

- each outstanding share of Old Sarcos Common Stock, after giving effect to the conversion described above, was cancelled and converted into and became (i) the right to receive approximately 0.854870404 shares (the "Exchange Ratio") of Common Stock of the Company, par value $0.0001 per share (the "Common Stock"), rounded down to the nearest whole share plus (ii) the contingent right to receive a portion of additional shares of Common Stock upon achievement of certain milestones (the "Contingent Merger Consideration"), as described below; and

- the outstanding options, restricted stock units ("RSUs") and a restricted stock award ("RSA") of Old Sarcos, whether vested or unvested, were assumed by the Company and converted into options, RSUs and an RSA of the Company;

In addition, each holder of Old Sarcos capital stock (including the Old Sarcos RSA) was entitled to a right to Contingent Merger Consideration at the Closing Date in the form of earn-outs, up to an aggregate of 4.7 million shares of Common Stock.

On the Closing Date, certain investors (the “PIPE Investors”) purchased from the Company approximately 3.7 million shares (the “PIPE Shares”) of Common Stock at a price of $60.00 per share, for an aggregate purchase price of $220.0 million (the “PIPE Financing”), in a private placement pursuant to separate subscription agreements (each, a “Subscription Agreement”) entered into effective as of April 5, 2021.

On September 27, 2021, the Common Stock and warrants of Sarcos Technology and Robotics Corporation (formerly those of Rotor Acquisition Corp.), ceased trading on the New York Stock Exchange and began trading on The Nasdaq Global Market (“Nasdaq”) as “STRC” and “STRCW”, respectively.

On April 25, 2022, the Company acquired RE2, Inc., (“RE2”) a Pittsburgh, PA based developer of autonomous and teleoperated mobile robotic systems. The results presented herein include the activity of RE2 from the acquisition date through June 30, 2023. The Company's results do not include RE2’s financial information prior to the acquisition. For further detail see Note 4.

Reverse Stock Split

On July 5, 2023, the Company effected a 1-for-6 reverse stock split ("Reverse Stock Split") of the Company's outstanding shares of common stock, as approved by the Company's stockholders at the Company’s Annual Meeting of Stockholders held on June 14, 2023. All share and per share amounts of common stock, options, warrants, restricted stock and restricted stock units in the accompanying condensed consolidated financial statements and notes thereto have been retroactively adjusted for all periods presented to reflect the reverse stock split.

Asset Impairment and Restructuring

On July 12, 2023, the Company announced that it had refined its sales strategy to focus on products that have the most potential for near-term revenue growth and strategic opportunities that show the greatest market traction and meet an acute customer need. The Company's optimization efforts include realigning its cost structure to reduce expenses and headcount and consolidating its Pittsburgh manufacturing into its Salt Lake City location. In connection with this restructuring, the Company incurred charges of $5.1 million in the three and six months ended June 30, 2023, including $4.4 million due to the write-down of inventory and $0.7 million related to the impairment of certain fixed assets. The Company anticipates incurring additional restructuring expense related to the reduction of headcount of approximately $6.0 million, net, during the third quarter of 2023, which includes approximately $1.5 million in cash severance and benefit payments. The remainder of the additional restructuring expense is anticipated to be non-cash adjustments largely related to the acceleration of stock-based compensation expense resulting from the accelerated termination of the Company's redemption right over certain shares held by the Company's former Chief Operating Officer in connection with the expected termination of his employment during the third quarter of 2023.

Summary of Significant Accounting Policies

There have been no changes to the Company’s significant accounting policies described in the annual consolidated financial statements for the year ended December 31, 2022 that have had a material impact on the Company’s condensed consolidated financial statements and related notes.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $75.1 million as of June 30, 2023, compared to $114.5 million as of December 31, 2022. The Company has historically incurred losses and negative cash flows from operations. As of June 30, 2023, the Company also had an accumulated deficit of approximately $352.8 million and working capital of $75.6 million.

These financial statements have been prepared in accordance with GAAP and on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company’s main sources of liquidity have been cash generated by equity offerings and debt. The Company’s primary use of cash is for operations and administrative activities including employee-related expenses, and general, operating and overhead expenses. Future capital requirements will depend on many factors, including the Company’s timing and extent of development efforts, the expansion of sales and marketing activities, customer growth rate, customer retention, the introduction of new and enhanced product offerings and market acceptance of the Company’s products. The Company believes it has sufficient financial resources for at least the next 12 months from the date of this Report.

Revenue Recognition

The Company recognizes revenue from the sale of its products and from the delivery of goods and services arising out of its contractual arrangements to provide product development contract services that are funded by the customer. 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:* A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights and obligations regarding the products and services to be transferred and identifies the payment terms related to these products and services, (ii) the contract has commercial substance and (iii) the Company determines that collection of substantially all consideration for products and services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. Contract modifications may include changes in scope of work, and/or the period of completion of the project. The Company analyzes contract modifications to determine if they should be accounted for as a modification to an existing contract or a new stand-alone contract.

(2) *Identify the performance obligations in the contract:* The Company enters into contracts that can include combinations of products and services, which are either capable of being distinct and accounted for as separate performance obligations or as one performance obligation if the majority of tasks and services form a single project or capability. Determining whether products or services are considered distinct performance obligations that should be accounted for separately may require significant judgment.

(3) *Determine the transaction price:* The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. Such amounts are typically stated in the customer contract. However, to the extent that the Company identifies variable consideration, the Company will estimate the variable consideration at the onset of the arrangement as long as it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company's current contracts do not include any significant financing components because the timing of the transfer of the underlying products and services under contract are at the customer's discretion. Additionally, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Taxes collected from customers and remitted to governmental authorities are not included in revenue.

(4) *Allocate the transaction price to performance obligations in the contract:* Once the Company has determined the transaction price, the total transaction price is allocated to each performance obligation in a manner depicting the amount of consideration to which the Company expects to be entitled in exchange for transferring the good(s) or service(s) to the customer. If applicable, the Company allocates the transaction price to each performance obligation identified in the contract on a relative standalone selling price basis. The standalone selling price represents the amount the Company would sell the good(s) or service(s) to a customer on a standalone basis. For government contracts, the Company uses expected cost plus a margin as the standalone selling price. Because the Company's contract pricing with government customers is generally based on expected cost plus a margin, the standalone selling price of the good(s) or service(s) in the Company's contracts with government customers are typically equal to the selling price stated in the contract. When we sell standard good(s) or service(s) with observable standalone sale transactions, the observable standalone sales transactions are used to determine the standalone selling price.

(5) *Recognize revenue when or as the Company satisfies a performance obligation*: For each performance obligation identified, the Company determines at contract inception whether it satisfies the performance obligation over time or at a point in time. For performance obligations satisfied over time, revenue is recognized as work progresses when the Company is entitled to the reimbursement of costs plus a reasonable profit for work performed for which the Company has no alternate use. For these performance obligations, the Company generally recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation. The Company believes that costs incurred as a portion of total estimated costs is an appropriate measure of progress towards satisfaction of the performance obligation since this measure reasonably depicts the progress of the work effort. Revenue for performance obligations that are not recognized over time are recognized at the point in time when control transfers to the customer (which is generally upon delivery). For performance obligations that are satisfied at a point in time, the Company evaluates the point in time when the customer can direct the use of, and obtain the benefits from, the products and services. Shipping and handling costs are recorded at the time of product shipment to the customer and are included within revenue.

Revenue from Contracts with Customers

The Company derives its revenue from two sources. First, the Company enters into research and development agreements primarily relating to the commercialization of the Company's products. Second, the Company sells its products and related parts and repair services. Product development contract revenue includes revenue arising from different types of contractual arrangements, including cost-type contracts and fixed-price contracts. Product revenue primarily consists of sales of the Company's products.

Product Development Contract Revenue

Cost-type contracts – Research, development and/or testing service contracts, including cost-plus-fixed-fee and time and material contracts, relate primarily to the development of the Company's products and related technology. Cost-type contracts are generally entered into with the U.S. government. These contracts are billed at cost plus a margin as defined by the contract and the Federal Acquisition Regulation ("FAR"). The FAR establishes regulations around procurement by the government and provides guidance on the types of costs that are allowable in establishing prices for goods and services delivered under government contracts. Revenue on cost-type contracts is recognized over time as goods and services are provided.

Fixed-price contracts – Fixed-price development contracts relate primarily to the development of technology in the area of robotic platforms. Fixed-price development contracts generally require a significant service of integrating a complex set of tasks and components into a single deliverable. Revenue on fixed-price contracts is generally recognized over time as goods and services are provided. To the extent the Company's actual costs vary from the fixed fee, we will generate more or less profit or could incur a loss. The Company will recognize losses at the contract level in earnings in the period in which they are incurred.

Product Revenue

Product revenue relates to sales of the Company's commercially available products, and certain miscellaneous parts, accessories and repair services. The Company provides a limited one-year warranty on product sales. Product warranties are considered assurance-type warranties and are not considered to be separate performance obligations. Product revenue is recognized at the point in time when ownership of the goods is transferred, generally at the time of shipment to the customer. At the time product revenue is recognized, an accrual is established for estimated warranty expenses based on historical experience as well as anticipated product performance.

Revenue recognized for Product Development Contract Revenue and Product Revenue for the three and six months ended June 30, 2023 and 2022, were as follows:

(In thousands)	**For the three months ended June 30,**		**For the six months ended June 30,**	
	2023	**2022**	**2023**	**2022**
Product Development Contract Revenue	$ 1,274	$ 2,982	$ 3,570	$ 3,715
Product Revenue	3	56	3	66
Revenue, net	$ 1,277	$ 3,038	$ 3,573	$ 3,781

Contract Balances

The timing of revenue recognition, billing, and cash collection results in the recognition of accounts receivable, unbilled receivables, contract assets and deferred revenue in the Company's condensed consolidated balance sheets.

Cash funds received in excess of revenue recognized that is contingent upon the satisfaction of performance obligations is accounted for as deferred revenue.

Contract assets include unbilled receivables which are amounts resulting from timing differences between revenue recognition and billing in accordance with agreed-upon contractual terms, which typically occur subsequent to revenue being recognized.

The opening and closing balances of our accounts receivable, unbilled receivables, contract assets and deferred revenue as of June 30, 2023 and December 31, 2022, are as follows:

(In thousands)	**Accounts receivable**	**Unbilled receivable**	**Contract assets (current)**	**Contract assets (long-term)**
Ending Balance as of December 31, 2022	$ 1,866	$ 4,160	$ 62	$ 11
Increase/(decrease), net	(586)	(2,633)	190	(10)
Ending Balance as of June 30, 2023	$ 1,280	$ 1,527	$ 252	$ 1

The Company recorded its current contract assets, long-term contract assets and current deferred revenue within prepaid expenses and other current assets, other non-current assets and accrued liabilities, respectively. During the three and six months ended June 30, 2023 and 2022, the Company did not recognize any revenue related to deferred revenue which existed at December 31, 2022 and 2021, respectively.

Remaining Performance Obligations

As of June 30, 2023, the Company had backlog, or revenue related to remaining performance obligations, of $4.8 million. The Company expects most of this backlog to be recognized over the next 12 months.

Recently Adopted Accounting Pronouncements

As an emerging growth company ("EGC"), the Jumpstart Our Business Startups Act ("JOBS Act") allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are applicable to private companies. The Company has elected to use this extended transition period under the JOBS Act until such time as the Company is no longer considered to be an EGC. The adoption dates discussed below reflect this election.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The new standard requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The Company adopted ASU 2016-13 on January 1, 2023. The adoption of ASU 2016-13 did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

2. Fair Value Measurements

ASC Topic 820, Fair Value Measurement, defines fair value as the exchange price that would be received for an asset, or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1—Fair value is based on observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2—Fair value is determined using quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable.

Level 3—Fair value is determined using one or more significant inputs that are unobservable in active markets at the measurement date, such as an option pricing model, discounted cash flow or similar technique.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

On a recurring basis, the Company measures certain of its financial assets and liabilities at fair value. The fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs as of June 30, 2023 and December 31, 2022:

	As of June 30, 2023			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Marketable securities:				
U.S. treasury securities	$ 49,579	$ —	$ —	$ 49,579
Total assets	$ 49,579	$ —	$ —	$ 49,579
Liabilities:				
Warrant liability	$ —	$ 194	$ —	$ 194
Total liabilities	$ —	$ 194	$ —	$ 194

	As of December 31, 2022			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Marketable securities:				
U.S. treasury securities	$ 79,337	$ —	$ —	$ 79,337
Total assets	$ 79,337	$ —	$ —	$ 79,337
Liabilities:				
Warrant liability	$ —	$ 253	$ —	$ 253
Total liabilities	$ —	$ 253	$ —	$ 253

As of June 30, 2023, the Company held $49.6 million of available-for-sale debt securities with maturity dates within one year. The fair value of the Company's available-for-sale debt securities approximates their amortized cost basis. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying amounts of accounts payable and accrued expenses approximate their fair values because of the relatively short periods until they are required to be settled.

3. Balance Sheet Components

Inventories, Net

As of June 30, 2023 and December 31, 2022, inventories, net consisted of the following:

(In thousands)	**June 30, 2023**	**December 31, 2022**
Raw materials	$ 2,757	$ 2,081
Work-in-process	78	180
Finished goods, net	888	1,301
Total inventories, net	$ 3,723	$ 3,562

The Company had inventory reserves of $1.1 million as of June 30, 2023 and $0.4 million as of December 31, 2022.

Prepaid Expenses and Other Current Assets

As of June 30, 2023 and December 31, 2022, prepaid expenses and other current assets consist of the following:

(In thousands)	**June 30, 2023**	**December 31, 2022**
Prepaid insurance	$ 1,304	$ 3,420
Software	1,513	1,191
Other prepaid expenses and assets	777	404
Total prepaid expenses and other current assets	$ 3,594	$ 5,015

Property and Equipment, Net

As of June 30, 2023 and December 31, 2022, property and equipment, net consist of the following:

(In thousands)	**June 30, 2023**	**December 31, 2022**
Robotics and manufacturing equipment	$ 2,124	$ 1,610
Leasehold improvements	4,458	4,442
Computer equipment	1,817	1,719
Financed leased computer equipment	271	271
Software	389	389
Furniture and fixtures, and other fixed assets	1,017	1,835
Property and equipment, gross	10,076	10,266
Accumulated depreciation	(3,313)	(2,626)
Property and equipment, net	$ 6,763	$ 7,640

Depreciation expenses were $0.4 million and $0.3 million, for the three months ended June 30, 2023 and 2022, respectively. Depreciation expenses were $0.8 million and $0.6 million, for the six months ended June 30, 2023 and 2022, respectively.

Accrued Liabilities

As of June 30, 2023 and December 31, 2022, accrued liabilities consist of the following:

(In thousands)	June 30, 2023	December 31, 2022
Payroll and related costs	$ 2,969	$ 4,271
Other accrued expenses and current liabilities	1,080	1,754
Total accrued liabilities	$ 4,049	$ 6,025

4. Acquisitions

On April 25, 2022, the Company acquired RE2, Inc. a Pittsburgh, PA based developer of manipulator arms with human-like performance, intuitive robot interfaces and advanced autonomy capabilities. This acquisition significantly increased our engineering team and added additional products and target markets to the Company's total addressable market. The aggregate consideration transferred was $90.1 million, of which $30.7 million was paid in cash, $44.0 million was comprised of 1,562,112 shares of common stock and $15.4 million was comprised of assumed options to purchase 646,173 shares of common stock. Additionally, 233,333 shares of common stock were issued with a fair value of $6.6 million that are subject to risk of forfeiture which lapses over four years after the acquisition date. These shares were excluded from the consideration transferred and are being recorded as stock-based compensation expense.

The acquisition was accounted for as a business combination and the total purchase consideration was allocated to the net tangible and intangible assets and liabilities based on their fair values on the acquisition date and the excess was recorded as goodwill. The Company recorded the assets acquired and liabilities assumed at their fair values as of the acquisition date.

The following table presents the final purchase consideration allocation recorded in the Company's consolidated balance sheet as of the acquisition date:

(in thousands)	Amount
Cash and cash equivalents	$ 981
Accounts receivable	821
Unbilled receivables	1,968
Inventories	465
Prepaid expenses and other current assets	253
Property and equipment	1,084
Intangible assets	21,300
Goodwill	70,236
Operating lease assets	1,486
Other non-current assets	21
Accounts payable	(822)
Accrued liabilities	(2,334)
Current operating lease liabilities	(458)
Operating lease liabilities	(1,028)
Deferred tax liabilities	(3,895)
Total acquisition consideration	$ 90,078

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

(in thousands)	Amounts	Weighted Average Useful Life (in years)
Trade name and trademarks	$ 1,000	6
Developed technology	9,600	5
Customer relationships	10,700	9
Total intangible assets	$ 21,300	7

Goodwill represents the future economic benefits arising from other assets that could not be individually identified and separately recognized, such as the acquired assembled workforce and synergies expected to be achieved from the integration of RE2. Goodwill is not deductible for tax purposes.

The results of operations of RE2 from the date of acquisition have been included in the Company's consolidated financial statements. Pro forma revenue and results of operations have not been presented because the historical results of RE2 are not material to the Company's consolidated financial statements in any period presented.

5. Goodwill and Intangible Assets

Goodwill

As a result of sustained decreases in the Company's publicly quoted share price during the fourth quarter of 2022, the Company conducted an analysis of its goodwill as of December 31, 2022, and performed a quantitative goodwill impairment assessment. Based on the Company's quantitative goodwill impairment assessment, it concluded that the carrying value of its reporting unit exceeded its fair value and that all of its goodwill was fully impaired as of December 31, 2022.

Acquired Intangible Assets

As of June 30, 2023, acquired intangible assets, net consisted of the following:

	June 30, 2023			
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Remaining Useful Life (in years)**
Trade name and trademarks	$ 1,000	$ 194	$ 806	4.8
Developed technology	9,600	2,240	$ 7,360	3.8
Customer relationships	10,700	1,387	$ 9,313	7.8
Total	$ 21,300	$ 3,821	$ 17,479	

The Company recorded $0.8 million and $0.6 million of amortization expense during the three months ended June 30, 2023 and 2022, respectively. The Company recorded $1.6 million and $0.6 million of amortization expense during the six months ended June 30, 2023 and 2022, respectively. Amortization expense was recorded as intangible amortization expense in the condensed consolidated statements of operations. There was no impairment of intangible assets recorded for the six months ended June 30, 2023 and 2022.

As of June 30, 2023, future amortization expense related to acquired intangible assets was as follows:

(In thousands)	**Amortization Expense**
2023	$ 1,639
2024	3,276
2025	3,276
2026	3,276
2027	1,996
2028 and thereafter	4,016
Total	$ 17,479

6. Reverse Recapitalization

Pursuant to ASC 805, *Business Combinations*, the Business Combination was accounted for as a reverse recapitalization, rather than a business combination, for financial accounting and reporting purposes. Accordingly, Old Sarcos was deemed the accounting acquirer (and legal acquiree) and Rotor was treated as the accounting acquiree (and legal acquirer). Under this method of accounting, the reverse recapitalization was treated as the equivalent of Old Sarcos issuing stock for the net assets of Rotor, accompanied by a recapitalization. The net assets of Rotor are stated at historical cost, with no goodwill or other intangible assets recorded. The consolidated assets, liabilities, and results of operations prior to the Merger are those of Old Sarcos. The shares and corresponding capital amounts and earnings per share available for common stockholders, prior to the Merger, have been retroactively restated as shares reflecting the Exchange Ratio.

Earn-Out Shares

Each holder of Old Sarcos capital stock is entitled to Contingent Merger Consideration following the closing of the Business Combination in the form of earn-outs, up to an aggregate of 4,687,500 shares of Common Stock (the "Earn-Out Shares"). The Earn-Out Shares will become payable as follows:

- 2,343,750 shares of Common Stock of the Company in the aggregate if the closing share price of a share of Common Stock of the Company is equal to or exceeds $90.00 for 20 trading days in any 30 consecutive trading day period at any time during the period beginning on the first anniversary of the Closing Date and ending on the fourth anniversary of the Closing Date.

- 2,343,750 shares of Common Stock of the Company if the closing share price of a share of Common Stock of the Company is equal to or exceeds $120.00 for 20 trading days in any 30 consecutive trading day period at any time during the period beginning on the first anniversary of the Closing Date and ending on the fifth anniversary of the Closing Date.

The Earn-Out Shares issuable to holders of Old Sarcos capital stock are accounted for as equity-linked instruments and recorded in additional paid-in capital, and the Earn-Out Shares issuable to holders of Old Sarcos capital stock subject to restricted stock awards are accounted for as share-based compensation. The Earn-Out Shares are treated as equity-linked instruments as opposed to shares outstanding, and as such are not included in shares outstanding on the Company's condensed consolidated balance sheets. As of June 30, 2023, there remained 4,687,500 Earn-Out Shares potentially issuable.

7. Warrants

On January 20, 2021, Rotor consummated the initial public offering ("IPO") of 27,600,000 units (the "Units"), including the full exercise by the underwriters of their over-allotment option. Each Unit included one sixth of a share of Class A Common Stock and one half of one warrant (the "Public Warrants"). Simultaneously with the closing of the IPO, Rotor consummated the sale of 7,270,000 warrants (the "Private Placement Warrants") in a private placement to Rotor Sponsor LLC (the "Sponsor"), an affiliate of Rotor's officers and directors, and certain funds and accounts managed by two qualified institutional buyers. At the Closing Date, Old Sarcos acquired the net liabilities from Rotor, including the Public Warrants, that were recorded as equity instruments, and the Private Placement Warrants, that were recorded as warrant liabilities (together the "Warrants").

Each whole Warrant entitles the registered holder to purchase one sixth of a share of the Company's Common Stock at a price of $11.50 per warrant, subject to adjustment as discussed below, at any time commencing on January 20, 2022, provided that the Company has an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act") covering the shares of the Common Stock issuable upon exercise of the Warrants and a current prospectus relating to them is available (or the Company permits holders to exercise their Warrants on a cashless basis under the circumstances specified in the warrant agreement (the "Warrant Agreement") entered into between Continental Stock Transfer & Trust Company and Rotor and such shares are registered, qualified or exempt from registration under the securities laws of the state of residence of the holder. Pursuant to the Warrant Agreement, a Warrant holder may exercise its Warrants only for a whole number of shares of the Company's Common Stock. The Warrants will expire five years after the completion of the Business Combination, or September 24, 2026, at 5:00 p.m., New York City time, or earlier upon redemption or liquidation. As of June 30, 2023, there were outstanding Warrants to purchase 3,424,908 shares of Common Stock.

The Company will not be obligated to deliver any Common Stock pursuant to the exercise of a 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 Warrants is then effective and a prospectus relating thereto is current, subject to the Company satisfying its obligations described below with respect to registration, or a valid exemption from registration is available. No Warrant will be exercisable, and the Company will not be obligated to issue a share of Common Stock upon exercise of a Warrant unless the share of the Company's 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. If the conditions in the two immediately preceding sentences are not satisfied with respect to a Warrant, the holder of such Warrant will not be entitled to exercise such Warrant and such Warrant may have no value and expire worthless. In no event will the Company be required to net cash settle any Warrant. In the event a registration statement is not effective for the exercised Warrants, the purchaser in the Rotor IPO of a Unit containing such Warrant will have paid the full purchase price for the Unit solely for the share of the Company's Common Stock underlying such Unit.

Except as described herein, the Private Placement Warrants have terms and provisions that are identical to those of the Public Warrants. If the Private Placement Warrants are held by holders other than the initial purchasers or their permitted transferees, the Private Placement Warrants will be redeemable by the Company in all redemption scenarios and exercisable by the holders on the same basis as the Public Warrants. The Private Placement Warrants will not be redeemable by the Company so long as they are held by the initial purchasers or their permitted transferees, subject to certain exceptions. The initial purchasers or their permitted transferees, have the option to exercise the Private Placement Warrants on a cashless basis.

Redemption of Warrants When the Price per Share of the Company's Common Stock Equals or Exceeds $108.00. Once the Warrants become exercisable, the Company may call the Warrants for redemption:

- 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 last reported sale price of the shares of the Company's Common Stock for any 20 trading days within a 30-trading day period commencing after the Warrants become exercisable and ending three business days before the Company sends the notice of redemption to the Warrant holders (which is referred to as the “Reference Value”) equals or exceeds $108.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like).

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. However, the Company will not redeem the Warrants unless an effective registration statement under the Securities Act covering the shares of the Company's Common Stock issuable upon exercise of the Warrants is effective and a current prospectus relating to those shares of the Company's Common Stock is available throughout the 30-day redemption period.

Redemption of Warrants When the Price per Share of Our Common Stock Equals or Exceeds $60.00. Once the Warrants become exercisable, the Company may redeem the outstanding Warrants (except as described herein with respect to the Private Placement Warrants if the Company does not utilize this redemption provision):

- in whole and not in part;

- at $0.10 per Warrant upon a minimum of 30 days’ prior written notice of redemption; provided that holders will be able to exercise their Warrants on a cashless basis prior to redemption and receive that number of shares determined by reference to an agreed table based on the redemption date and the “fair market value” of the Company's Common Stock;

- if, and only if, the Reference Value (as defined above) equals or exceeds $60.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like); and

- if the Reference Value is less than $108.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) the Private Placement Warrants must also be concurrently called for redemption on the same terms (except as described above with respect to a holder’s ability to cashless exercise its Warrants) as the outstanding Public Warrants, as described above.

8. Stock-based Compensation

2021 Stock Plan

On September 15, 2021, the stockholders of the Company approved the Sarcos Technology and Robotics Corporation 2021 Equity Incentive Plan (the “2021 Plan”), and on the Closing Date, the 2021 Plan was approved by the board of directors. The 2021 Plan provides stock option awards, RSUs and RSAs for issuance to Company employees, officers, directors, non-employee agents and consultants. In general, these awards vest over one to four years and, in the case of options, are exercisable up to 10 years from the date of grant. The maximum number of shares of Common Stock that may be issued pursuant to the 2021 Plan is (i) 5.0 million shares of Common Stock of the Company plus (ii) any shares of Common Stock subject to stock options and other awards that were assumed in the Business Combination and expire or otherwise terminate without having been exercised in full, are tendered to or withheld by the Company for payment of an exercise price or for tax withholding obligations, or are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of shares to be added to the 2021 Plan pursuant to clause (ii) equal to 2.1 million shares of Common Stock. As of June 30, 2023, 1.9 million shares were available to grant under the 2021 Plan.

2015 Stock Plan

The Old Sarcos 2015 Equity Incentive Plan (the “2015 Plan”) provided stock option awards, RSUs and RSAs for issuance to Company employees, officers, directors, non-employee agents and consultants. These awards generally vest over three to five years and are exercisable up to 10 years from the date of grant. Unvested options are forfeited upon termination. Following the closing of the Business Combination, no further awards may be made under the 2015 Plan. Any forfeited awards will be added to the 2021 Plan subject to the maximum number of shares allowed by the 2021 Plan.

RE2 Stock Plans

In connection with the acquisition of RE2, the Company assumed the outstanding stock plans and certain outstanding stock options of RE2. These stock options are governed by the plans and agreements under which they were originally issued, but are now exercisable for shares of Common Stock.

Stock Option Activity

The following summarizes the Company's stock option activity for the six months ended June 30, 2023:

	Options Outstanding		Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
	Number of Shares	Weighted Average Exercise Price		
Outstanding – December 31, 2022	2,377,503	$ 16.80	7.1	$ 698
Granted	1,859,200	2.79		
Cancelled	(618,299)	13.99		
Outstanding – June 30, 2023	3,618,404	$ 10.08	7.9	$ 275
Exercisable – December 31, 2022	1,414,864	$ 9.48	5.8	$ 698
Exercisable – June 30, 2023	1,429,424	$ 11.55	5.5	$ 275

Restricted Stock Units Activity

The following summarizes the Company's RSU activity for the six months ended June 30, 2023:

	Restricted Stock Units Outstanding	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding – December 31, 2022	602,561	$ 22.01
Granted	1,274,325	2.71
Released	(158,531)	19.55
Cancelled	(293,231)	14.06
Outstanding – March 31, 2023	1,425,124	$ 6.66

Stock-Based Compensation Expense

The Company recognized stock-based compensation expense in the condensed consolidated statement of operations and comprehensive loss as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	**2023**	**2022**	**2023**	**2022**
Cost of revenue	$ 31	$ 24	$ 38	$ 38
Research and development	377	159	587	314
Sales and marketing	306	251	513	383
General and administrative	1,356	9,836	3,596	20,385
Total stock-based compensation expense	$ 2,070	$ 10,270	$ 4,734	$ 21,120

9. Net Loss Per Share

The following table sets forth the computation of the basic and diluted net loss per share attributable to common stockholders for the three and six months ended June 30, 2023 and 2022:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands, except share and per share data)	**2023**	**2022**	**2023**	**2022**
Numerator:				
Net loss	$ (28,660)	$ (23,118)	$ (50,136)	$ (42,320)
Denominator:				
Weighted average shares outstanding, basic and diluted	25,512,057	24,379,549	25,491,654	23,685,766
Basic and diluted net loss per share	$ (1.12)	$ (0.95)	$ (1.97)	$ (1.79)
Anti-dilutive securities, excluded	13,389,271	11,586,027	13,389,271	11,586,027

As the Company incurred a net loss for the three and six months ended June 30, 2023 and 2022, none of the outstanding dilutive share-based awards were included in the diluted share calculation as they would have been anti-dilutive.

10. Income Taxes

To determine the Company's quarterly provision for income taxes, the Company used an estimated annual effective tax rate that is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. Certain significant unusual or infrequently occurring items that are separately reported are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rate from quarter to quarter.

The Company had income tax expense of $3,000 for the three and six months ended June 30, 2023, as compared to income tax benefit of $1.6 million for the three and six months ended June 30, 2022. The provision for income taxes for the three months ended June 30, 2023 and 2022 is based on the Company's estimated annualized effective tax rate for the fiscal years ending December 31, 2023 and 2022, respectively. For the three and six months ended June 30, 2023, the Company's recognized effective tax rate differs from the U.S. federal statutory rate as the Company recorded net losses during the period with a corresponding full valuation allowance on the net deferred tax assets created from the losses.

11. Commitments and Contingencies

Legal Proceedings

The Company has been and may in the future be involved in various claims, lawsuits, investigations and other proceedings in the normal course of business. The Company accrues a liability when management believes information available prior to the issuance of its financial statements indicates it is probable a loss has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. The Company adjusts its accruals to reflect the impact of negotiation, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Legal costs are expensed as incurred. The Company has not recorded any material loss contingency related to legal proceedings in the balance sheets as of June 30, 2023 and December 31, 2022, respectively.

Indemnifications

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to investors, directors, officers, employees, customers or vendors with respect to certain matters, including losses arising out of the Company's breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is indeterminable. As of June 30, 2023 and December 31, 2022, the Company has not accrued a liability for these indemnification obligations as the likelihood of incurring a material payment obligation in connection with these indemnification obligations is either not probable or not reasonably estimable due to the unique facts and circumstances involved.

Unconditional Purchase Commitment

As of June 30, 2023, the Company has an unconditional purchase commitment of $2.0 million, which is related to operational expenses and all of which was paid during the third quarter of 2023.

12. Segment Information

The Company's Interim Chief Executive Officer ("CEO") is the Chief Operating Decision Maker ("CODM"). The CODM allocates resources and makes operating decisions based on financial information presented on a consolidated basis. The CODM does not evaluate profitability below the level of the consolidated company. Accordingly, the Company has determined that it has a single reportable segment and operating segment structure.

The Company's revenue is derived primarily from U.S. customers. During the three and six months ended June 30, 2023, the Company had $0.2 million and $0.9 million, respectively, of revenue earned from customers located outside the United States. During the three and six months ended June 30, 2022, the Company had $0.6 million of revenue earned from customers located outside the United States.

All long-lived assets are maintained in the United States. All losses are attributable to operations within the United States.

13. Employee Benefits

The Company has a defined contribution 401(k) plan covering substantially all employees as of June 30, 2023. The plan allows employees to defer up to 100% of their employment income (subject to annual contribution limits imposed by the I.R.S.) after all taxes and applicable benefit deductions. In April 2022 the Company began providing employees with 401(k) matching on a portion of their contributions.

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

Throughout this section, unless otherwise noted, the "Company," "Sarcos Technology and Robotics Corporation," "Sarcos," "we," "us," and "our" refers to Sarcos Technology and Robotics Corporation, and its subsidiaries, collectively. You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited interim condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report (this "Report") as well as our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the "2022 Form 10-K") and our other filings, including Current Reports on Form 8-K, that we have filed with the SEC through the date of this Report. As discussed in the Special Note Regarding Forward-Looking Statements below, in addition to historical information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in Part II Item 1A Risk Factors and elsewhere in this Report.

Special Note Regarding Forward-Looking Statements

Certain statements in this Report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for our business. Specifically, forward-looking statements may include statements relating to:

- our ability to sell our products to new and existing customers;
- our product roadmap, including expected timing of new product releases;
- our ability to manage and overcome supply chain challenges, including increases in the cost of and an interruption in the supply or availability of components, parts and materials;
- competition from existing or future businesses and technologies;
- our ability to manage our growth and expenses;
- our ability to maintain, protect and enhance our intellectual property;
- our ability to comply with modified or new laws and regulations applicable to our business;
- our ability to attract and retain qualified personnel with the necessary experience;
- our ability to introduce new products that meet our customers' requirements and to successfully transition to high volume manufacturing of our products by third-party manufacturers or by us;
- our projected financial and operating information and estimates of market size and opportunities;
- our future financial performance;
- the impact of the COVID-19 pandemic and global economic and geopolitical conditions on our business and the business of our customers;
- changes in the markets for our products and services;
- expansion plans and opportunities, including plans to expand our product availability globally;
- future capital requirements and sources and uses of cash;
- our ability to defend and the outcome of any known and unknown litigation and regulatory proceedings;
- our ability to maintain and protect our brand; and
- other statements preceded by, followed by or that include the words "may," "can," "should," "will," "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "aim," "target" or similar expressions.

These forward-looking statements are based on information available as of the date of this Report and our management's current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and, in any event, you should not place undue reliance on these forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) 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 those factors described in Part II Item 1A Risk Factors of this Report. Should one or more of these risks or uncertainties materialize, or should any of the assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. Our Risk Factors are not guarantees that no such conditions exist as of the date of this Report and should not be interpreted as an affirmative statement that such risks or conditions have not materialized, in whole or in part.

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

Overview

We are a technology leader in the design, development and manufacture of advanced robotic systems, solutions and software that redefine human possibilities. We design, develop and produce highly-dexterous mobile robotic systems and solutions for use in dynamic and unstructured environments and develop related software, including our AI/ML (artificial intelligence/machine learning) software platform to enable generalizable autonomy. Our mission is to increase worker productivity and longevity and prevent injuries through robotics. Our robotic systems are designed to augment and increase human productivity, rather than replace humans, by combining human intelligence, instinct and judgment with the strength, endurance and precision of machines.

We are a pioneer in the robotic systems industry and benefit from lessons learned over 30 years and significant investment in research and development in our proprietary technologies and our extensive patent portfolio. Through our development efforts on products such as the Guardian XO, Guardian XT, Guardian XM and Guardian Sea Class, we have developed a significant amount of advanced technology that we are leveraging across our systems and solutions. In addition, we have been developing AI software and technologies for many years. We believe our foundational technology developed over many years is a key competitive strength as we continue to develop and work to commercialize our products.

On July 12, 2023, we announced that we had refined our sales strategy to focus on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need. These products include our Guardian Sea Class system and certain aviation (baggage handling and exterior aircraft maintenance) and solar (solar field panel installation) solutions, as well as our commercial AI autonomy software platform to enable generalizable autonomy. Each of these focus products has been under development for some time. We made the decision to focus on these products based on a combination of our views and expectations of customer demand, supply chain constraints and overall manufacturing and product technical readiness.

In addition, we announced steps to optimize our organization in pursuit of these product opportunities and to reduce costs, including reducing headcount and consolidating our Pittsburgh manufacturing into our Salt Lake City location. In connection with the restructuring, we incurred charges of $5.1 million in the three and six months ended June 30, 2023, related to the write-down of inventory and fixed assets. We anticipate incurring additional restructuring expense related to the reduction of headcount of approximately $6.0 million, net, during the third quarter of 2023, which includes approximately $1.5 million in cash severance and benefit payments. The remainder of the additional restructuring expense is anticipated to be non-cash adjustments largely related to the acceleration of stock-based compensation expense resulting from the accelerated termination of our redemption right over certain shares held by our former Chief Operating Officer in connection with the expected termination of his employment during the third quarter of 2023.

As a result of the narrowing and refinement of our sales strategy, and optimization of our organization we expect research and development, general and administrative, and sales and marketing expenses, exclusive of the additional restructuring expenses discussed above, to decrease significantly during the latter half of 2023.

Based on feedback from our development customers and potential commercial customers, we have decided to offer our systems and solutions primarily through a sales business model where the customer purchases a system or solution for a one-time, upfront amount. We currently intend to offer our commercial AI autonomy software through a software-as-a-service (SaaS) revenue model. We also plan to offer software upgrades and additional capabilities and to offer for sale add-on hardware components (such as additional interchangeable end-effectors).

Continuing Impact of COVID-19

We took several actions in response to the COVID-19 pandemic that resulted in significant disruptions to how we operate our business. Our customers and partners adopted similar policies. Although many of these measures are no longer in effect, we have experienced, and may continue to experience, an adverse impact on certain parts of our business as a result of measures to mitigate the COVID-19 pandemic and their resulting economic effects. Further, discontinued measures could be reinstituted, for example as a result of government requirements or in response to new variants of COVID-19.

We have experienced and may continue to experience disruptions in our supply chain, due in part to the global impact of the COVID-19 pandemic. Depending upon the duration of the ongoing COVID-19 pandemic and the associated business interruptions, our customers, suppliers, manufacturers and partners may suspend or delay their engagements with us, which could result in a material adverse effect on our financial condition and ability to meet current timelines. In an effort to manage potential supply chain risks, in particular long and unpredictable lead-times, we have accelerated and expect to continue to accelerate purchases of various materials, parts and components for the foreseeable future to support product development and current and future production of our commercial systems and solutions, which has increased and will likely continue to increase our use of cash. In addition, the COVID-19 pandemic has affected and may continue to affect our ability to recruit skilled employees to join our team. The conditions caused by the pandemic have adversely affected and may continue to adversely affect, among other things, demand for our products and the ability to test and assess our robotic systems with potential customers any of which adversely affects our business, results of operations and financial condition. The duration and extent of the COVID-19 pandemic and its impacts cannot be accurately predicted at this time, and the ultimate direct and indirect impacts on our business, results of operations and financial condition will depend on future developments that are highly uncertain.

We will continue to monitor the global impact of COVID-19 and its effects on our business and operations closely. We do not yet know the full extent of potential impacts on our business or operations. In particular, the effect of the COVID-19 pandemic may not be fully reflected in our operating results until future periods. Given this uncertainty, we cannot reasonably estimate the impact of the COVID-19 pandemic on our future results of operations, cash flows, or financial condition.

Key Factors Affecting Operating Results

We believe that our performance and future success depend on several factors that present significant opportunities for us but also pose risks and challenges, including those discussed below and in Part II Item 1A Risk Factors.

Development, Testing and Commercial Launch of our Products

We are focusing our business efforts on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need. These products include our Guardian Sea Class system and certain aviation (baggage handling and exterior aircraft maintenance) and solar (solar field panel installation) solutions, as well as a commercial AI autonomy software platform to enable generalizable autonomy. We believe that our ability to successfully develop, launch and sell these commercial products will determine our near- to mid-term financial success. We made the decision to focus on these products based on a combination of our views and expectations of customer demand, supply chain constraints and overall manufacturing and product technical readiness. Whether we are successful depends on many factors, including those discussed under Part II Item 1A Risk Factors "*Risks Related to Our Business.*" Such risks may result in delay of the anticipated commercial launch of one or more of our products, which would adversely affect our financial condition and operating results.

Financing of Operations

Prior to commercialization, we must complete the development, testing and manufacturing requirements of our products. As a result, we will spend a material portion of our cash on hand to develop our products and fund operations for the foreseeable future. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our product development efforts, our ability to manufacture, sell and deliver commercial products and thereby recognize associated revenue, capital requirements to build commercial products prior to receiving payments sufficient to cover our costs and our ability to lower product costs as volumes increase. As sales volumes increase, we may seek outside financing to help cover production costs for product orders. In addition, we have taken numerous steps to manage our use of cash and believe we have sufficient capital to fund our business for at least the next 12 months without seeking additional capital. For example, on July 12, 2023 we announced a reduction in force ("RIF") intended to further conserve the Company's current cash resources and manage operating expenses. The majority of the cash payments related to these expenses will be paid out during the third quarter of 2023. The reduction in force is expected to be completed by the end of 2023. We believe we have sufficient liquidity to operate into 2025 without the need to raise additional capital. However, we expect to need additional capital before becoming cash flow positive, which we do not expect to achieve until at least 2025. As a result, we intend to continue monitoring our liquidity, financial and business results and outlook and market conditions, and may be opportunistic and raise capital when we consider market conditions are good or a favorable opportunity exists to bolster our cash reserves, reduce our financial risk, help finance product manufacturing and inventory costs and pursue business objectives. We currently have no plans to do an equity financing in 2023, but we could change our plans if we determine it to be necessary or advisable. Any delays in the successful commercialization and sales of our products will negatively impact our ability to generate revenue, our profitability and our overall operating performance and result in the need to raise additional capital sooner than expected.

Acquisition and Integration of RE2

On April 25, 2022, we acquired RE2, Inc., a Pittsburgh, PA based developer of manipulator arms with human-like performance, intuitive robot interfaces and advanced autonomy capabilities. The results presented and discussed below include the activity for RE2 from the acquisition date through June 30, 2023. Our results do not include RE2's financial information prior to the acquisition.

Customer Demand

As a result of interactions with potential customers, which generally communicated a near-term preference for specific solutions rather than more general purpose systems (other than the Guardian Sea Class), we determined to refine our sales and product development strategy to focus on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need. These products include our Guardian Sea Class system and certain aviation (baggage handling and exterior aircraft maintenance) and solar (solar field panel installation) solutions, as well as a commercial AI software platform to enable generalizable autonomy. Because our robotic systems and solutions represent new product categories or advancements in markets that currently rely generally on conventional, manual systems, or low function manipulation mechanisms, the market demand for our products is unproven, and important assumptions about the characteristics of targeted markets, pricing and sales cycles may be inaccurate. Market demand for our AI autonomy software and our ability to successfully develop this software into a commercial product are similarly unproven. If customer demand does not develop as expected or we do not accurately forecast pricing, adoption rates and sales cycles for our products, our business, results of operations and financial condition will be adversely affected.

Manufacturing of Our Products

To the extent we obtain commercial orders for our products, we will need to manufacture and deliver them to our customers. We have entered into an agreement with a third-party contract manufacturer and expect to generally outsource manufacturing of our products over time. However, engaging with a manufacturing partner will likely require significant time, ramp-up, testing and coordination before high-volume production capability by the partner is achieved. Further, the timing of this process will likely be delayed due to our new sales and product development strategy. We currently do not anticipate high-volume production by our contract manufacturing partner to be in place until after 2023. We expect that this contract manufacturing partner will initially focus on helping us produce product sub-systems. With our refined sales strategy and focus products, we may be unable to successfully transition our contract manufacturing partner to our new focus products, provide it with sufficient volume or otherwise maintain the relationship. However, we believe we have sufficient internal manufacturing capacity to meet near-term demand for our focus products. For additional information around the risks associated with contract manufacturing see Part II Item 1A Risk Factors "*Our expected transition to an outsourced manufacturing business model may not be successful, which could harm our ability to deliver products and recognize revenue.*"

Continued Investment and Innovation

We are a pioneer in the robotic systems industry and benefit from lessons learned over 30 years and significant investment in research and development in our proprietary technologies and our extensive patent portfolio. However, we believe our financial performance is significantly dependent on our ability to maintain this leading position and further dependent on the investments we make in research and development. It is important that we continually identify and respond to rapidly evolving customer requirements and competitive threats, develop and introduce innovative products, enhance and service our products and generate active market demand for our products. If we fail to do this, our market position and revenue may be adversely affected, and our investments in these technologies will not be recovered.

Geopolitical and Macro-economic Environment

Geopolitical and macro-economic factors, such as inflation, rising interest rates, oil prices, unemployment rates, the war in Ukraine, volatility in the stock market and political or social unrest, can have significant impacts on economic activity, which in turn could affect demand for our products or our ability to cost-effectively develop, sell and manufacture our products. Among other things, these and similar factors can affect our supply chain, our ability to hire qualified personnel, our labor and materials costs, the prices we charge for our products and the budgets of our customers and their expected return-on-investment from the purchase of or subscription for our products. Many of these factors are outside of our control but can have a significant impact on our business success and operating results. If we are unable to manage our business successfully in response to any such factors, our business and results of operations would be adversely affected.

Results of Operations

The discussion below regarding our results of operations for the three and six months ended June 30, 2023 and 2022 includes the financial results of RE2 beginning on the acquisition date through June 30, 2023. Our results do not include RE2's financial information prior to the acquisition.

Comparison of the Three Months Ended June 30, 2023, and 2022

Revenue, Net

The following table presents our revenue for the three months ended June 30, 2023 and 2022, respectively:

	Three Months Ended June 30,		2023 vs. 2022 Change	
(In thousands)	**2023**	**2022**	**Change**	**% Change**
Product Development Contract Revenue	$ 1,274	$ 2,982	$ (1,708)	(57)%
Product Revenue	3	56	(53)	(95)%
Revenue, net	$ 1,277	$ 3,038	$ (1,761)	(58)%

Revenue decreased by $1.8 million, or 58%, from $3.0 million for the three months ended June 30, 2022, to $1.3 million for the three months ended June 30, 2023, as explained below.

Product Development Contract Revenue

Product development contract revenue decreased by $1.7 million, or 57%, from $3.0 million for the three months ended June 30, 2022, to $1.3 million for the three months ended June 30, 2023. The decrease was primarily due to the completion of certain product development contracts during the first half of 2023 that have not yet been replaced with new contracts. We expect future revenue from product development contracts to fluctuate due to the timing of additional development contracts signed and the completion of existing contracts. We continue to take on only those contracts that support and contribute to our commercialization efforts. As we focus on initial commercial sales of our products, our product development contract revenue is expected to decrease as a percentage of total revenue.

Product Revenue

Revenue derived from product sales was not significant for the three months ended June 30, 2022 or the three months ended June 30, 2023. For the period ended June 30, 2022, the lack of product sales was due to our focus on product development in preparation for the commercial launch of certain products. For the period ended June 30, 2023, we believe the lack of product sales was primarily due to various factors, including customer budget constraints, the impact on potential customers of macroeconomic factors and lack of near-term customer need for our general purpose systems (other than the Guardian Sea Class). As described elsewhere in this Report, as a result of interactions with potential customers, which generally communicated a near-term preference for specific solutions rather than more general purpose systems (other than the Guardian Sea Class), we have determined to refine our sales and product development strategy to focus on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need.

Operating Expenses

The following table presents our operating expenses for the three months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		2023 vs. 2022 Change	
(In thousands)	**2023**	**2022**	**Change**	**% Change**
Operating expenses:				
Cost of revenue	$ 943	$ 3,146	$ (2,203)	(70)%
Research and development	11,706	7,569	4,137	55%
General and administrative	8,252	18,146	(9,894)	(55)%
Sales and marketing	4,410	2,586	1,824	71%
Intangible amortization expense	819	574	245	43%
Asset write-down and restructuring	5,106	—	5,106	*NM
Total operating expenses	$ 31,236	$ 32,021	$ (785)	(2)%

*NM - Not Meaningful

Cost of Revenue

Cost of revenue decreased by $2.2 million, or 70%, from $3.1 million for the three months ended June 30, 2022, to $0.9 million for the three months ended June 30, 2023. Cost of revenue decreased mainly due to decreased labor and material expenses charged to product development contracts during the three months ended June 30, 2023.

Research and Development

Research and development expense increased by $4.1 million, or 55% from $7.6 million for the three months ended June 30, 2022, to $11.7 million for the three months ended June 30, 2023. The increase was driven primarily by increased labor and overhead expense as a result of increased headcount (due in part to the RE2 acquisition) and the shift of labor from cost of revenue to research and development due to the timing of new product development contracts being signed and the focus on new product development and commercialization efforts. As a result, allocated overhead and fringe related costs also increased due to the increase in labor costs. We continue to prioritize our efforts on development and commercialization of our focus products.

General and Administrative

General and administrative expense decreased by $9.9 million, or 55%, from $18.1 million for the three months ended June 30, 2022, to $8.3 million for the three months ended June 30, 2023. General and administrative expense decreased primarily due to reduced stock-based compensation expense of $8.5 million due to certain awards vesting in the prior year. In addition to the decrease in stock-based compensation expense, business insurance expense decreased during the current year period to more favorable rates resulting from the latest renewal and legal fees decreased in comparison to the prior year period due to the lack of acquisition-related legal expenses arising from the RE2 acquisition during the prior year period.

Sales and Marketing

Sales and marketing expense increased by $1.8 million, or 71%, from $2.6 million for the three months ended June 30, 2022, to $4.4 million for the three months ended June 30, 2023. This increase was driven by an increase in professional service fees related to third-party platform expense utilized in data management of our products and services and increased promotional and event expense during the current year period.

Intangible Amortization Expense

Intangible amortization expense increased by $0.2 million, from $0.6 million for three months ended June 30, 2022, to $0.8 million for the three months ended June 30, 2023. The increase in intangible amortization expense is due to the recognition of amortization expenses on identified intangible assets recorded as part of the RE2 acquisition.

Asset Write-down and Restructuring

Asset write-down and restructuring expenses were $5.1 million for the three months ended June 30, 2023, which includes a write-down of $4.4 million of inventory and $0.7 million of impairment of certain fixed assets as a result our product development reprioritization.

Other Income

The following table presents other income for the three months ended June 30, 2023 and 2022, respectively:

	Three Months Ended June 30,		2023 vs. 2022 Change	
(In thousands)	**2023**	**2022**	**Change**	**% Change**
Other income				
Interest income, net	$ 874	$ 148	$ 726	491 %
Gain on warrant liability	439	4,113	(3,674)	(89)%
Other loss, net	(11)	(2)	(9)	450 %
Total other income	$ 1,302	$ 4,259	$ (2,957)	(69)%

Other income decreased by $3.0 million for the three months ended June 30, 2023 as compared to the prior year period, as a result of the decrease in unrealized mark-to-market gain on our outstanding private placement warrants, partially offset by increased interest income from our investments in marketable securities.

Comparison of the Six Months Ended June 30, 2023 and 2022

Revenue, Net

The following table presents our revenue for the six months ended June 30, 2023 and 2022, respectively:

	Six Months Ended June 30,		2023 vs. 2022 Change	
(In thousands)	**2023**	**2022**	**Change**	**% Change**
Product Development Contract Revenue	$ 3,570	$ 3,715	$ (145)	(4)%
Product Revenue	3	66	(63)	(95)%
Revenue, net	$ 3,573	$ 3,781	$ (208)	(6)%

Revenue decreased by $0.2 million, or 6%, from $3.8 million for the six months ended June 30, 2022, to $3.6 million for the six months ended June 30, 2023, as explained below.

Product Development Contract Revenue

Product development contract revenue decreased by $0.1 million, or 4%, from $3.7 million for the six months ended June 30, 2022 to $3.6 million for the six months ended June 30, 2023. The decrease was primarily due to the completion of certain product development contracts during the first half 2023 that have not yet been replaced with new contracts. We expect future revenue from product development contracts to fluctuate due to the timing of additional development contracts signed and the completion of existing contracts. We continue to take on only those contracts that we believe support and contribute to our product commercialization efforts. As we focus on initial commercial product sales, our product development contract revenue is expected to decrease as a percentage of total revenue.

Product Revenue

Revenue derived from product sales was not significant for the six months ended June 30, 2022 or the six months ended June 30, 2023. For the period ended June 30, 2022, the lack of product sales was due to our focus on product development in preparation for the commercial launch of certain products. For the period ended June 30, 2023, we believe the lack of product sales was primarily due to various factors, including budget constraints, the impact on potential customers of macroeconomic factors and lack of near-term customer need for our general purpose systems (other than the Guardian Sea Class). As described elsewhere in this Report, as a result of interactions with potential customers, which generally communicated a near-term preference for specific solutions rather than more general purpose systems (other than the Guardian Sea Class), we have determined to refine our sales and product development strategy to focus on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need.

Operating Expenses

The following table presents our operating expenses for the six months ended June 30, 2023 and 2022:

	Six Months Ended June 30,		2023 vs. 2022 Change	
(In thousands)	**2023**	**2022**	**Change**	**% Change**
Operating expenses:				
Cost of revenue	$ 2,729	$ 3,634	$ (905)	(25)%
Research and development	21,109	13,450	7,659	57 %
General and administrative	17,987	35,938	(17,951)	(50)%
Sales and marketing	8,151	4,797	3,354	70 %
Intangible amortization expense	1,638	574	1,064	185 %
Asset write-down and restructuring	5,106	—	5,106	*NM
Total operating expenses	$ 56,720	$ 58,393	$ (1,673)	(3)%

*NM - Not Meaningful

Cost of Revenue

Cost of revenue decreased by $0.9 million, or 25%, from $3.6 million for the six months ended June 30, 2022, to $2.7 million for the six months ended June 30, 2023. Cost of revenue decreased mainly due to decreased labor and material expense charged to product development contracts during the six months ended June 30, 2023.

Research and Development

Research and development expense increased by $7.7 million, or 57% from $13.5 million for the six months ended June 30, 2022, to $21.1 million for the six months ended June 30, 2023. The increase was driven primarily by an increase in labor and overhead expense as a result of increased headcount (due in part to the RE2 acquisition) and the shift of labor from cost of revenue to research and development due to the timing of new product development contracts being signed and the focus on new product development and commercialization efforts. As a result, allocated overhead and fringe related costs also increased due to the increase in labor costs. We continue to prioritize our efforts on development and commercialization of our focus products.

General and Administrative

General and administrative expense decreased by $18.0 million, or 50%, from $35.9 million for the six months ended June 30, 2022, to $18.0 million for the six months ended June 30, 2023. General and administrative expense decreased primarily due to reduced stock-based compensation expense of $16.8 million due to certain awards vesting in the prior year. In addition to the decrease in stock-based compensation expense, business insurance expenses decreased during the current year period to more favorable rates resulting from the latest renewal and legal fees decreased in comparison to the prior year due to the lack of acquisition-related legal expenses arising from the RE2 acquisition during the prior year period.

Sales and Marketing

Sales and marketing expense increased by $3.4 million, or 70%, from $4.8 million for the six months ended June 30, 2022, to $8.2 million for the six months ended June 30, 2023. This increase was driven by an increase in professional service fees related to third-party platform expense utilized in data management of our products and services, increased promotional and event expense during the current year period, and increased expenses related to additional headcount due in part to our RE2 acquisition.

Intangible Amortization Expense

Intangible amortization expense increased by $1.1 million, from $0.6 million for six months ended June 30, 2022, to $1.6 million for the six months ended June 30, 2023. The increase in intangible amortization expense is due to the recognition of amortization expenses on identified intangible assets recorded as part of the RE2 acquisition.

Asset Write-down and Restructuring

Asset write-down and restructuring expenses were $5.1 million for the six months ended June 30, 2023, which includes a write-down of $4.4 million of inventory and $0.7 million of impairment of certain fixed assets as a result our product development reprioritization.

Other Income

The following table presents other income for the six months ended June 30, 2023 and 2022, respectively:

	Six Months Ended June 30,		2023 vs. 2022 Change	
(In thousands)	**2023**	**2022**	**Change**	**% Change**
Other income				
Interest income, net	$ 1,973	$ 159	$ 1,814	1,141 %
Gain on warrant liability	3	10,527	(10,524)	(100)%
Other income, net	1,038	—	1,038	*NM
Total other income	$ 3,014	$ 10,686	$ (7,672)	(72)%

*NM - Not Meaningful

Other income decreased by $7.7 million for the six months ended June 30, 2023 as compared to the prior year period as a result of the decrease in unrealized mark-to-market gain on our outstanding private placement warrants, partially offset by increased interest income from our investments in marketable securities and increased other income related to employee retention credit refunds received.

Liquidity and Capital Resources

We currently use cash to fund operations and capital expenditures and meet working capital requirements. As of June 30, 2023, we had $75.1 million in cash, cash equivalents and marketable securities. We believe that our cash, cash equivalents and marketable securities on hand will be sufficient to support operations, working capital and capital expenditure requirements for at least the next 12 months from the date of this Report.

The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our product development efforts, our ability to manufacture and deliver commercial products and thereby recognize associated revenue, capital requirements to build commercial products prior to receiving payments sufficient to cover our costs and our ability to lower product costs as volumes increase. Any delays in the successful commercialization of our products will negatively impact our ability to generate revenue, our profitability and our overall operating performance.

In addition, we may enter into arrangements to acquire or invest in complementary businesses, services and technologies, which may require acquisition capital as well as operational capital for these acquisitions or arrangements. We may be required to seek additional equity or debt financing to facilitate these arrangements. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition would be materially and adversely affected.

If additional funds are required to support our working capital requirements, for acquisitions or for other purposes, we may seek to raise funds through additional debt or equity financings or from other sources. As sales volumes increase, we may seek outside financing to help cover production costs for product orders. We have taken numerous steps to manage our use of cash, including the reduction in force announced on July 12, 2023 and other related actions, and believe we have sufficient capital to fund our business for at least the next 12 months without seeking additional capital. We believe we have sufficient liquidity to operate into 2025 without the need to raise additional capital. However, we expect to need additional capital before becoming cash flow positive, which we do not expect to achieve until at least 2025. As a result, we intend to continue monitoring our liquidity, financial and business results and outlook and market conditions, and may be opportunistic and raise capital when we consider market conditions are good or a favorable opportunity exists to bolster our cash reserves, reduce our financial risk, help finance product manufacturing and inventory costs and pursue business objectives. We currently have no plans to do an equity financing in 2023, but we could change our plans if we determine it to be necessary or advisable. Any delays in the successful commercialization and sales of our products will negatively impact our ability to generate revenue, our profitability and our overall operating performance and result in the need to raise additional capital sooner than expected. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our equity holders could be significantly diluted and these newly issued securities may have rights, preferences or privileges senior to those of existing equity holders. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operating flexibility and would also require us to incur additional interest expense. Additional financing may not be available at all or, if available, may not be available on terms favorable to us or that we find acceptable.

Cash Flows

The following table summarizes our cash flow data for the periods presented:

	Six Months Ended June 30,		2023 vs. 2022 Change	
(In thousands)	**2023**	**2022**	**Change**	**% Change**
Net cash provided by (used in):				
Net cash used in operating activities	$ (39,985)	$ (27,924)	$ (12,061)	43%
Net cash provided by (used in) investing activities	30,455	(109,884)	140,339	(128)%
Net cash used in financing activities	(63)	(6,047)	5,984	(99)%
Net decrease in cash, cash equivalents	$ (9,593)	$ (143,855)	$ 134,262	(93)%

Net Cash Used in Operating Activities

Cash flows used in operating activities during the six months ended June 30, 2023 increased by $12.1 million to $40.0 million from $27.9 million during the same period in 2022. The increase to net cash used in operating activities was primarily attributable to a $7.8 million increase to net loss, a net decrease of $0.8 million in non-cash expenses driven mainly by decreased stock-based compensation partially offset by decreased gains on warrant liability revaluation and increased asset write-down and restructuring expenses. Additionally, net cash used in operating activities related to changes in operating assets and liabilities increased by $3.4 million, driven mainly by increased inventory purchases and decreases in accrued liabilities, partially offset by decreases in unbilled receivables.

Net Cash Provided by (Used in) Investing Activities

Our net cash provided by investing activities during the six months ended June 30, 2023 increased by $140.3 million. The increase in cash provided by investing activities is predominantly due to $31.1 million of maturities of marketable securities, net of purchases, during the six months ended June 30, 2023, as compared to the purchase of short-term marketable securities of $79.5 million and $29.7 million of net cash was included as part of the purchase consideration for the RE2 acquisition during the six months ended June 30, 2022.

Net Cash Used In Financing Activities

Our net cash used in financing activities during the six months ended June 30, 2023 decreased by $6.0 million as compared to the prior year period. The decrease in financing activities was mainly due to a $6.6 million decrease in funds used to repurchase shares of common stock that were withheld for payment of tax withholding obligations upon the vesting of equity awards.

Emerging Growth Company Status

Section 102(b)(1) of the Jumpstart our Business Startups Act of 2012 (the “JOBS Act”) exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable.

We are an “emerging growth company” as defined in Section 2(a) of the Securities Act, and have elected to take advantage of the benefits of the extended transition period for new or revised financial accounting standards. We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year in which the market value of Common Stock that is held by non-affiliates exceeds $700 million as of the end of that year’s second fiscal quarter, (ii) the last day of the fiscal year in which we have total annual gross revenue of $1.235 billion or more during such fiscal year (as indexed for inflation), (iii) the date on which we have issued more than $1 billion in non-convertible debt in the prior three-year period or (iv) December 31, 2025, and we expect to continue to take advantage of the benefits of the extended transition period, although we may decide to early adopt such new or revised accounting standards to the extent permitted by such standards. This may make it difficult or impossible to compare our financial results with the financial results of another public company that is either not an emerging growth company or is an emerging growth company that has chosen not to take advantage of the extended transition period exemptions because of the potential differences in accounting standards used.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. There have been no material changes to our critical accounting policies or estimates as disclosed in our 2022 Form 10-K.

Recent Accounting Pronouncements

See Note 1, Basis of Presentation and Summary of Significant Accounting Policies, to our unaudited interim condensed consolidated financial statements included elsewhere in this Report for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information otherwise required under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time period specified in the SEC rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our chief executive officer and chief financial officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended June 30, 2023, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that our disclosure controls and procedures were effective as of June 30, 2023.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2023 covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be subject to legal proceedings. We are not currently a party to or aware of any proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

You should carefully consider the following risk factors, in addition to the other information contained in this Report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited condensed consolidated financial statements and related notes. If any of the events described in the following risk factors and the risks described elsewhere in this Report occurs, our business, operating results and financial condition could be materially harmed. This Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Report or other risks that we currently deem immaterial or that may be unknown to us. References in this Item 1A Risk Factors to financial information as of dates or for periods ended on or prior to April 25, 2022 do not include the financial information of RE2 as of those dates or for those periods.

Risks Related to Our Business

We are an early stage company with a history of losses, and expect to incur significant expenses for the foreseeable future.

We incurred a net loss of $50.1 million for the six months ended June 30, 2023, and a net loss of $157.1 million for the year ended December 31, 2022. We believe that we will continue to incur operating and net losses until 2025 at the earliest. Even if we are able to successfully develop our robotic systems and solutions and attract customers for commercial sales, we may not become profitable. Our potential profitability is dependent upon the successful development and successful commercial introduction and adoption on a larger scale of our robotic systems, solutions and software and our ability to lower production costs as we achieve economies of scale through high-volume production, none of which may occur.

We expect that we will continue to incur losses in future periods as we:

- continue to design, develop, manufacture and commercialize our products;
- continue to utilize and develop potential new relationships with third-party partners for supply, design for manufacturing and manufacturing;
- expand our production capabilities, including costs associated with the outsourcing of the manufacturing of our robotic systems and solutions;
- build up inventories of parts (including replacement parts) and components for our robotic systems and solutions;
- develop our maintenance and servicing capacity and capabilities;
- manufacture an inventory of our robotic systems and solutions, including upfront expenditures to manufacture systems prior to delivery and recognition of related revenue;
- increase our sales and marketing activities and develop our sales and distribution infrastructure;
- develop our AI software platform to enable generalizable autonomy;
- develop our remote monitoring, updating and other cloud-based services on our robot service platform;
- develop and test safety measures for our systems and solutions, including working with customers to evaluate and test the efficacy of those safety measures;

- develop and expand our technology infrastructure and cybersecurity measures, policies and controls; and
- increase our general and administrative functions and systems to support our growing operations and to operate as a publicly-traded company.

Because we will incur costs and expenses from these efforts before we receive incremental revenue with respect thereto and because we are still developing and commercializing our products, we expect that our losses in future periods will continue to be significant until we start to achieve significant product sales and associated revenue. In addition, we may find that these efforts are more expensive than we currently anticipate or that these efforts may result in less than expected or no additional revenue, which would further increase our losses.

We have yet to achieve positive operating cash flow, and our ability to generate positive cash flow is uncertain.

We had negative cash flow from operating activities of $65.4 million and $42.1 million for the years ended December 31, 2022 and 2021, respectively, and negative cash flow from operating activities of $40.0 million for the six months ended June 30, 2023. We expect to continue to have negative cash flow from operating and investing activities until 2025 at the earliest as we expect to incur research and development, sales and marketing, and general and administrative expenses and make capital expenditures in our efforts to commercialize our products, increase sales and engage in continuous development work. We may not achieve positive cash flow in the near future or at all. Our business also will at times require significant amounts of working capital to build inventory and support the growth of additional products. An inability to generate positive cash flow for the near term may adversely affect our ability to raise capital for our business on reasonable terms, diminish supplier or customer willingness to enter into transactions with us and have other adverse effects that may decrease our long-term viability.

We have very limited experience commercializing our products and may not be able to do so efficiently or effectively.

Although we have sold products to individual customers in the past, we have very limited experience commercializing robotic systems and solutions at a large scale and may not be able to do so efficiently or effectively. Further, on July 12, 2023 we announced a shift in product development and commercialization strategy to focus on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need, as well as a new Advanced Technologies division to focus on commercializing our AI and machine learning (ML) software platform to enable generalizable autonomy, which may not prove to be effective. Moreover, commercialization may be delayed due to the challenges discussed under "*Commercialization of our products may be delayed beyond our current expectations and therefore initial delivery to customers and receipt of anticipated revenue could be delayed.*" A key element of our long-term business strategy is the continued growth in sales, marketing, training, customer service and maintenance and servicing operations, including hiring personnel with the necessary experience. Managing and maintaining these operations is expensive and time consuming, and an inability to leverage such an organization effectively or at all could inhibit potential sales and the penetration and adoption of our products into new markets. In addition, certain decisions we make regarding priorities and staffing in these areas in our efforts to maintain an adequate spending level while responsibly managing our financial resources could have unintended negative effects on our revenue, such as by weakening the sales, marketing and maintenance and servicing infrastructures or lowering the quality of customer service.

Commercialization of our systems, solutions and software may be delayed beyond our current expectations and therefore initial delivery to customers and receipt of anticipated revenue could be delayed.

On July 12, 2023 we announced a shift in product development and commercialization strategy to focus on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need, as well as the creation of a new Advanced Technologies division to focus on commercializing our AI/ML software platform to enable generalizable autonomy, which may not prove to be effective. Development and production priorities are driven by a combination of customer demand, supply chain constraints and overall manufacturing and product technical readiness. With this shift in strategy, we are focusing on targeted robotic systems and solutions for the subsea (Guardian Sea Class), aviation (baggage handling and exterior aircraft maintenance) and solar (solar field panel installation) markets and on our commercial AI/ML software platform to enable generalizable autonomy. We expect that as our products continue to be tested, begin production and experience the rigors of regular customer use, we will continue to learn and make improvements to our products by integrating design and product feedback into current or future products.

Our current estimates for completion of our pre-commercialization development efforts and the commencement of production and delivery of commercial systems to customers of our products are dependent on our ability to continue to hire and retain qualified employees and the availability of components on a timely basis. In addition, we have seen a significant increase in personnel and materials costs due to shortages of qualified personnel in the labor market and general inflationary pressures. Geopolitical events and macro-economic conditions, such as the continuing effects of the COVID-19 pandemic, the current conflict between Russia and Ukraine, inflation and high interest rates, and responses thereto are also contributing to supply shortages and price increases. Over the past year we have experienced, and we continue to experience, challenges in both of these areas, which have negatively impacted our product development schedules and progress. We expect these challenges to continue and, if they do and if we are unable to effectively mitigate their impact, it is likely that we will be unable to meet our currently expected timelines. See "*We rely heavily on supply chain reliability and predictability and continued disruption in our supply chain could have a material adverse impact on operations and commercialization of our core systems*".

Also, if product testing, production or customer use demonstrate that our products have not been designed or produced to deliver the performance, reliability, functionality and/or safety that we or our potential customers expect, manufacturing or release of commercial products and therefore delivery to customers may be delayed as we work to address the deficiencies. For example, product testing has helped us improve software performance and address defects, identify materials weaknesses and other required fixes. While we believe this process is typical of new product releases and that it leads to product improvements, required product improvements have delayed and may in the future delay our ability to meet our estimated production and customer delivery timelines and volumes, and may lead to warranty and other claims and expenses. Delays in the commercial production, sale and delivery of our products will result in a commensurate delay in revenue and profitability. As a result, our results of operations and financial condition may be materially and adversely affected. In addition, delays in developing and releasing products with the performance, reliability and/or safety we and our potential customers are expecting could materially harm our reputation and lead potential customers to seek alternative solutions. If we experience further delays in the commercial release of our products, our results of operations and financial condition would be further adversely affected, perhaps materially.

If we are successful in commercializing our products, our revenue will be concentrated in a limited number of products for the foreseeable future.

If we are successful in commercializing our products, our revenue will be concentrated in a limited number of products for the foreseeable future. We will need to continue to develop our systems, solutions and software and establish and grow the customer base for our products to diversify our revenue and customers. To the extent our products do not meet customer expectations, or cannot be completed, manufactured or released on their projected timelines and in line with cost and volume targets, our future sales and operating results may be adversely affected. Because our business will depend on a limited number of products for the foreseeable future, both before and after we begin commercial sales of our systems, solutions and software, to the extent a particular product is not well-received by the market, our sales volumes and revenue would likely be materially and adversely affected, which would have a material adverse effect on our business, prospects, financial condition and operating results.

With our focus products still under development, we have limited current customers and no binding orders for commercial versions of our systems, solutions and software, and expected customer trials and discussions with respect to those products may not result in binding orders.

The initial commercial versions of our focus products are still under development. As a result, we have limited current development customers and no binding customer commitments for the commercial version of these products. At present, we have contracts for delivery of pre-commercial systems with U.S. government customers and we also have had and currently have revenue generating contracts with both commercial and U.S. government customers for the development and testing of certain of our systems, solutions and software.

Although we have engaged in dialogue with potential customers about their interest in our products, expected customer trials and discussions may not result in binding purchase orders. Our products contain complex technology that requires multiple years of engineering and design. The design of our products is significantly influenced by feedback from potential customers and reflects the needs they express. Therefore, the period of time from initial design of our products to commercial product release and obtaining binding purchase commitments from customers is long, and we are subject to the risk that customers who initially expressed an interest in our products during the design phase will not enter into binding commitments.

We have limited knowledge of the customer testing that will be required in order for customers to adopt our products, especially in volume. As such, customer testing may take longer than anticipated by us, and we may not be able to provide such testing to the satisfaction of prospective customers, which could result in longer sales cycles and fewer orders than anticipated. Further, some of our products have been designed to meet the specific use-cases of a particular customer. As a result, adapting our products to other industries or customers may require additional design, development, testing, work and expenses. We may not be able to adapt our products to reflect such feedback successfully or at all. If customers who initially express an interest in our products and influenced their design ultimately do not enter into binding commitments to purchase our products, or if they adopt a competitors' technology, our business, prospects, financial condition and operating results would be adversely affected.

In addition, in order to build and maintain our business, we must maintain confidence among customers, suppliers, analysts, ratings agencies and other parties in our products, long-term financial viability and business prospects. Maintaining such confidence may be particularly complicated by certain factors including those that are largely outside of our control, such as our limited commercial experience, customer unfamiliarity with our products, any delays in scaling production, ability of manufacturing and service operations to meet demand, product performance, competition and uncertainty regarding the future of robotics. If we do not receive a sufficient number of binding purchase orders for our products, our business, prospects, financial condition and operating results would be materially and adversely affected.

We have been working and continue to work to incorporate artificial intelligence, or AI, into our products. This technology is new and developing and may present operational and reputational risks.

We continue to incorporate AI features into some of our products and we are developing a commercial AI software platform to enable generalizable autonomy. This new and emerging technology, which is in its early stages of commercial use, presents a number of inherent risks. We are implementing compensating functionality into our AI technologies to address risks related to misinterpretation of environmental conditions, motion detection and similar issues that can arise. If we are unsuccessful in addressing these risks, our AI software may not work properly, result in safety concerns or result in other problems, any of which could harm our reputation, business, prospects, results of operations or financial condition. Governments have expressed concerns over AI technology, which could result in governmental or regulatory scrutiny, new or modified laws or regulations, claims, demands, and litigation, confidentiality, privacy, data protection or security risks, ethical concerns or other complications applicable that could adversely affect our business, financial condition, results of operations and prospects. See "*Issues in the development and use of artificial intelligence (AI), combined with an uncertain regulatory environment, may result in reputational harm, liability or other adverse consequences to our business operations.*"

We may fail to attract or retain customers at sufficient rates or at all.

We have very limited experience commercializing our products and may not be able to do so efficiently or effectively. Although we have engaged in ongoing dialogue with potential future customers, there are currently no binding commitments with customers to purchase commercial versions of our products. To grow our customer base, we must achieve binding commitments from expected customers and add new customers, which we may not be able to do in sufficient numbers or at all. Even if we are able to attract customers, these customers may not maintain a high level of commitment to our products or purchase our products in large volumes. In addition, we will incur marketing, sales or other expenses, including referral fees, to attract new customers, which will offset revenue from such customers. For these and other reasons, we could fail to achieve revenue growth, which would adversely affect our results of operations, prospects and financial condition.

If customers or their employees do not perceive our product offerings to be of value or to be easy to use, we may not be able to attract and retain customers and customers may fail to purchase additional systems and solutions. If our efforts to satisfy and retain our existing customers are not successful, we may not be able to attract new customers, and as a result, our ability to maintain and/or grow our business will be adversely affected. Customers may fail to purchase additional products for many reasons, including difficulties by employees in using the products, insufficient use by customers of robotic systems, solutions and software, price, insufficient ROIs, competitive products, product performance, negative reception by employees or labor unions and customer service or maintenance and servicing issues that are not satisfactorily resolved. Customer retention will also be largely dependent on the quality and effectiveness of our customer service and maintenance and servicing operations, which may be handled internally by our personnel and also by third-party service providers. Outsourcing of certain customer service and claims administration or maintenance and servicing functions may reduce our ability to ensure consistency in our overall customer service processes. If we are unable to successfully retain existing customers and attract new customers and achieve volume sales of our products, our business, prospects, financial condition and operating results will be materially and adversely affected.

We have decided to focus on a standard product sales model for our robotic systems and solutions, which may not prove to be effective.

Based on feedback from development customers and potential commercial customers, we have decided to focus on a standard product sales model for our robotic systems and solutions instead of the RaaS model we previously expected to pursue. The standard sales model has the benefit of reducing our capital requirements since we do not need to wait to recover our production costs over many months or years of RaaS subscription payments. As a result, we expect that our capital requirements will be reduced and that we can manufacture our systems and solutions in a more capital efficient manner. However, we had expected the RaaS model to be attractive to customers due to a variety of factors, such as lower upfront costs to acquire and use our products. If customers ultimately do not favor the standard product sales model, we would have to readjust our business model, which could result in increased capital requirements to support a RaaS or other model, delays in customer purchases of our systems and solutions and other consequences that could have a material adverse effect on our business, reputation, results of operations and financial condition.

Our products represent new product categories or advancements, and important assumptions about market demand, pricing, adoption rates and sales cycles for our current and future products may be inaccurate.

Because our robotic systems and solutions represent new product categories or advancements in markets that currently rely generally on conventional, manual systems, the market demand for our products is unproven, and important assumptions about the characteristics of targeted markets, pricing and sales cycles may be inaccurate. Market demand for our AI autonomy software and our ability to successfully develop this software into a commercial product are similarly unproven. If customer demand does not develop as expected or we do not accurately forecast pricing, adoption rates and sales cycles for our products, our business, results of operations and financial condition will be adversely affected.

Our industrial highly-dexterous mobile robotic systems and solutions represent new product categories in markets that currently rely generally on conventional manual systems and low-function manipulation mechanisms. The market demand for and adoption of these products is unproven, and important assumptions about the characteristics of targeted markets (including our estimates of our total addressable market, serviceable addressable market and serviceable obtainable market), pricing (including our analysis of potential customers' willingness to pay), manufacturing capacity and capabilities and sales cycles (including the timing of achieving commercial sales volumes and associated manufacturing cost synergies) may be inaccurate. Market demand for our AI autonomy software and our ability to successfully develop this software into a commercial product are similarly unproven. Given the evolving nature of the markets in which we operate, it is difficult to predict customer demand or adoption rates for our products or the future growth of the markets we target. If one or more of the targeted markets experience a shift in customer demand, whether due to new solutions that better address customer needs or otherwise, our products may not compete as effectively, if at all, and they may not be fully developed into commercial products. If demand does not develop as estimated or if we cannot accurately forecast pricing, adoption rates and sales cycle for our products, a risk we have experienced, our business, results of operations and financial condition will be adversely affected, perhaps materially.

The benefits of our products to customers and projected return on investment have not been substantiated through long-term trials or use.

The benefits to customers and projected return on investment of our products have not been substantiated through long-term trials or use. We currently have a limited frame of reference by which to evaluate the performance of our robotic systems and solutions upon which our business prospects depend, and these products may not provide the expected benefits to customers. Our commercial AI software platform is also under development and it has not been subject to customer trials. Our products may not perform consistent with customers' expectations or consistent with other products which may be or may become available. Any failure of our products to perform as expected could harm our reputation and result in adverse publicity, lost revenue, order cancellation, harm to our brand, delivery delays, product recalls, product liability claims and significant warranty and other expenses and could have a material adverse impact on our business, prospects, financial condition and operating results.

Even if we successfully market our products, the purchase, adoption and use of the products may be materially and negatively impacted if the employees of our customers resist the use and adoption of the products.

We are designing our robotic systems and solutions with the goal of augmenting the workforce to increase productivity and reduce workplace injuries. Even if we successfully market these products to customers, the purchase, adoption and use of the products may be materially and negatively impacted if the employees of our customers resist the use and adoption of the products. Customer employees may resist the adoption of our products for several reasons, including lack of instruction on how to safely and effectively use the systems and solutions, a perception that the benefit of the use of the products does not outweigh the perceived difficulties or discomfort associated with use, resistance by labor unions and workplace injuries resulting from use of the products. We spend significant time and resources on pre-commercial systems of our products for customer testing and expect to continue customer testing with our commercial systems, solutions and software. If the employees of our customers resist adoption of our robotic systems and solutions, our business, prospects, financial condition and operating results will be materially and adversely affected.

We currently target many customers that are large businesses with substantial negotiating power, exacting product standards and potentially competitive internal solutions. If we are unable to sell our products to these customers, our prospects and results of operations will be adversely affected.

We expect that many of our potential customers will be large, multinational businesses with substantial negotiating power relative to us and, in some instances, may have internal solutions that are competitive to our products. These large, multinational businesses also have significant development resources, which may allow them to acquire or develop independently, or in partnership with others, competitive technologies. Meeting the technical requirements and securing binding commitments from any of these businesses will require a substantial investment of our time and resources. We may be unable to secure binding commitments from these or other businesses or we may be unable to generate meaningful revenue from the sales of our products to these key potential customers. If our products are not selected by these large businesses or if these businesses develop or acquire competitive technology, it may have a material adverse effect on our business, prospects, financial condition and operating results.

A substantial portion of our current revenue is generated by sales to government entities, which are subject to a number of uncertainties, challenges and risks.

Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. In the event that we are successful in being awarded a government contract, such award may be subject to appeals, disputes or litigation, including bid protests by unsuccessful bidders. Government demand and payment for our solutions may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Government entities may have statutory, contractual or other legal rights to terminate our contracts for convenience or default. For purchases by the U.S. federal government, the government may require certain products to be manufactured in the United States and other high cost manufacturing locations, and we or any third-party manufacturers may not manufacture all products in locations that meet government requirements, and as a result, our business and results of operations may suffer. Also, see "*We are subject to laws, regulations and contractual provisions as a government contractor or subcontractor, which may pose increased risk of potential liability and expenses related thereto, which could have a material adverse effect on our business, operating results and financial condition*".

We operate in a competitive industry that is subject to rapid technological change, and we expect competition to increase.

The robotics industry is subject to rapid technological change, and we expect competition to increase in the future. Our research and development efforts may be unable to keep up with changes in robotics technology or its alternatives and, as a result, our competitiveness may suffer. Developments in alternative technologies or solutions may materially and adversely affect our competitiveness in ways we do not currently anticipate. While we plan to upgrade and adapt our robotic systems and solutions as we or others develop new technology, any failure by us to develop new or enhanced technologies or processes, or successfully react to changes or advances in existing technologies, could delay our development and introduction of new and enhanced products, which could result in the loss of competitiveness of our robotic systems and solutions, decreased revenue and a loss of market share to competitors.

We believe we are developing a new category of robotic systems and solutions that augment, rather than replace, humans. In many cases, our primary competition will be traditional modes of human labor, sometimes assisted by manual and semi-automated manipulation equipment mounted to mobile bases including overhead cranes, boom trucks, forklifts and underwater remotely operated vehicles. To overcome potential resistance to innovation and the adoption of new products and ways of working, we must demonstrate to customers the value proposition of our products, including increased productivity, reduced costly occupational injuries.

Additionally, our product offerings compete in a broad competitive landscape that includes robotics and automation companies that have both directly competing as well as alternative solutions ranging from exoskeletons, collaborative robots, industrial robots, traditional lift-assist equipment, unmanned robotic vehicles and underwater remotely operated vehicles. We also view our competitive landscape to include companies who have different but unique product lines in the automation space, such as ABB Robotics, Siasun Robot & Automation, Teradyne and Berkshire Grey. Also included in our broader competitive landscape are robotic solution suppliers, like Rockwell Automation, Honeywell, Keyence Corporation, COGNEX Corporation and Hexagon AB, which may not have a directly competing product today, but which could become competitors through diversification; these companies have existing customer relationships and channels, as well as significant financial and other resources, that could enable them to emerge as formidable competitors in the future.

The following is a breakdown of the competitive landscape for certain of our systems and solutions:

- Our Guardian Sea Class competes with underwater robotic arm manipulator and remotely operated vehicle companies like Exail Technologies, Reach Robotics, Saab Seaeye, Technic FMC and TMI-Orion Dynamics that provide manipulators and grippers for inspection-class and light working-class ROVs.
- We believe our photovoltaic panel installation solution will compete with direct and adjacent market solutions including Terabase's Terafab system which was launched in May 2023, AES' autonomous solar module installation solution and Bailey Crane's solar panel installation robots. We also believe that adjacent market players such as Built Robotics, who currently provides an automated pile driving solution to the solar construction market, could enter and compete in the solar panel installation market.
- Our baggage-handling solution competes with autonomous mobile robots (AMR) and automated guided vehicles (AGV) designed for baggage-handling by companies, such as Vanderlande, Addverb Technologies, Alstef Group, and baggage-loader/unloader systems, such as those provided by Beumer Group and BBHS.

Many of our competitors and potential competitors have products that are commercially available and/or in development. We expect some products currently in development to become commercially available in the next few years. In addition, we compete or may compete with system integrators, like Grey Matter Robotics and Titan Robotics, who develop point solutions using robotic arms provided by companies such as Kuka, Fanuc, Universal Robots, Yasakawa and others, especially as we develop a commercial AI software product. We may also compete with industrial automation solutions such as those offered by Hyundai-Boston Dynamics, Grey Matter, Canvas Technology, DroneSense, Intuitive, iRobot, Hahn Robotics, Kuka, Fanuc, Neurala, Ready Robotics, Rethink Robotics and Yaskawa.

Our competitor base may change or expand as we continue to develop and commercialize our robotic systems and solutions in the future. These or other competitors may develop products that utilize advanced technology similar to ours (such as computer vision, machine learning, and artificial intelligence) in a more effective way, or new technologies or products that provide superior results to customers or are less expensive than our products. Our technologies and products could be rendered obsolete by such developments.

Our competitors may respond more quickly to new or emerging technologies, undertake more extensive marketing campaigns, have greater financial, marketing, manufacturing and other resources than we do, or may be more successful in attracting potential customers, employees and strategic partners. In addition, potential customers could have long-standing or contractual relationships with competitors. Potential customers may be reluctant to adopt our products, particularly if they compete with or have the potential to compete with, or diminish the need/utilization of products or technologies supported through these existing relationships. If we are not able to compete effectively, our business, prospects, financial condition and operating results will be adversely affected.

In addition, because we operate in new and evolving markets, the actions of our competitors could adversely affect our business. Adverse events such as product defects or legal claims with respect to competing or similar products could cause reputational harm to the robotics market as a whole and, accordingly, our business.

We may not be able to complete or enhance our product offerings through our research and development efforts.

In order to commence production of an initial commercial version of one of our systems or solutions, we need to complete our development efforts with respect to such initial commercial product. Even after introduction of a commercial version of a product, we will also likely need to continue to advance and evolve the product in response to the evolving demands of our customers in the various industries we expect to serve. Our focus products are in various stages of development and commercialization. We will incur significant additional product development efforts and expenses, and we may not be successful in commercializing or marketing our core or future products at all or within our currently expected timelines.

In addition, notwithstanding our market research efforts, our current and future products may not be accepted by customers or their employees. The success of any proposed product offerings will depend on numerous factors, including our ability to:

- attract, recruit and retain qualified personnel, including engineers, design and production personnel and service technicians;
- identify the preferred product features for our target customers and markets;
- develop and introduce products in sufficient quantities and in a timely manner;
- adequately protect our intellectual property and avoid infringing upon the intellectual property rights of third parties; and
- demonstrate the productivity, efficacy and safety benefits of our products.

We have managed and expect to continue to manage our product development efforts through the development of pre-commercial systems and solutions, such as alpha and beta systems, for testing and evaluation. We also make iterative improvements throughout the development process. If we fail to adequately communicate to customers product improvements throughout the development process, or if customer feedback is not adequately reflected in our product improvements, customers may not be persuaded of the value of our products. If we fail to generate demand by developing products that incorporate features desired by customers or their employees, we may fail to generate revenue sufficient to achieve or maintain profitability. We have in the past experienced, are experiencing and may in the future experience, delays in various phases of product development, including during research and development, manufacturing, limited release testing, marketing and customer education efforts. Further, delays in product development would postpone demonstrations and customer testing, which are important opportunities for customer engagement, and cause us to miss expected timelines. Such delays could cause customers to delay or forgo purchases of our products, or to purchase competitors' products. Even if we are able to successfully develop our products when anticipated, we may not produce sales in excess of the costs of development, and our products may be quickly rendered obsolete by changing customer preferences or the introduction by competitors of products embodying new technologies or features. If we are unable to successfully manage our product development and communications with customers, customers may choose to not adopt or purchase our products, which would adversely affect our business, prospects, financial condition and operating results.

Risks Related to Our Operations & Growth

Our ability to develop and manufacture products of sufficient quality on schedule and on a large scale is unproven, and delays in the design, production and launch of our products could harm our business, prospects, financial condition and operating results.

Our future business depends in large part on our ability to execute our plans to design, develop, manufacture, market, deploy and service our products. Over time, we intend to largely outsource the manufacturing of our robotic systems and solutions to third-party manufacturing partners, which would reduce our direct control over manufacturing. Such diminished control may have an adverse effect on the quality or quantity of our systems and solutions, or our flexibility to respond to changing conditions. In addition, engaging third-party manufacturers involves significant time, ramp-up, testing and coordination before high-volume production capability by the partner is achieved. Although we have entered into an agreement with a contract manufacturing partner, we currently do not anticipate high-volume production by our contract manufacturing partner to be in place until after 2023.

We also plan to retain third-party vendors and service providers to engineer, design and test some of the critical systems and components of our systems and solutions. While this allows us to draw from such third parties' industry knowledge and expertise, such systems and components may not be successfully developed to our specifications or delivered in a timely manner to meet our program timing requirements.

The continued development and manufacturing of our products are and will be subject to risks, including with respect to:

- delays or disruptions in our supply chain, or the need to order supplies in excess of demand due to minimum quantity requirements or price thresholds;
- costs to be incurred by us and/or any third-party manufacturing partner or partners in meeting our specifications and design tolerances;
- the ongoing effects of the COVID-19 pandemic or other pandemics, epidemics or outbreaks;
- hiring and retaining a sufficient number of qualified employees (we have historically been understaffed due to these challenges);
- long- and short-term durability of our robotic systems and solutions to withstand day-to-day wear and tear;
- delays in delivery of final systems and components by our suppliers;
- manufacturing of robotic systems and solutions in excess of demand due to contractual requirements or unexpected changes in demand;
- shifts in demand for our products or new product feature requirements;
- quality controls, particularly as we plan to expand our production capabilities;
- the impact of national or global economic or political conditions, including war, inflation and interest rates;
- work stoppages, labor strikes and other labor disputes affecting us or our suppliers, third-party manufacturers and other partners; and
- other delays and cost overruns.

We are dependent on our suppliers, some of which are currently single, sole or limited source suppliers, and any inability of these suppliers to deliver necessary components of our products at the prices, volumes, performance, timing and specifications acceptable to us, could have a material adverse effect on our business, prospects, financial condition and operating results. We have not yet identified all of the suppliers that we are likely to rely on to support future commercialization of our products.

We rely on third-party suppliers for the provision and development of many of the key components and materials used in our products. We have not yet identified all of the suppliers, contractors and other third parties that we are likely to rely on to support the future commercialization of our products. While we plan to obtain components from multiple sources whenever possible, some of the components used in our products may have to be purchased by us from a single source and some may only be available from a sole source, for example, if we have developed custom components with a supply partner. If our third-party suppliers are unable to supply key components and materials in the required volumes, at the needed times or at acceptable prices, our sales, revenue and profitability will likely be adversely affected and we may not be able to meet our obligations to customers. Our third-party suppliers may also not be able to meet the specifications and performance characteristics required by us, which would impact our ability to achieve our product specifications and performance characteristics as well. Additionally, our third-party suppliers may be unable to obtain required certifications or provide warranties for their products that are necessary for our solutions. If we are unable to obtain components and materials used in our products from our suppliers, our business would be adversely affected.

We have less negotiating leverage with suppliers than larger and more established companies and may not be able to obtain favorable pricing and other terms. For example, agreements with suppliers may include terms that are unfavorable to us, such as requirements that we order components and manufacture systems and solutions in excess of our demand due to minimum order quantity requirements or minimum price thresholds. While we believe that we may be able to establish alternate supply relationships and can obtain or engineer replacement components for our single source components, we may be unable to do so in time to support our production needs, or at all, or at prices or quality levels that are favorable to us. Further, we may not be able to develop satisfactory alternatives to sole-sourced components. Any inability to find satisfactory alternatives to our single- and sole-sourced component suppliers, whether due to bankruptcy of the supplier, a decision to discontinue manufacturing the component or for any other reason, could affect our costs and component availability and have a material adverse effect on our business, prospects, financial condition and operating results.

Our business is dependent on the continued supply of lithium-ion battery cells. While we have sourced a supplier of such cells, that supplier is a sole-source supplier and is not obligated to provide such cells to us, and in any event may not be able or willing to meet all our requirements, especially as we commercialize our products. Any disruption in the supply of battery cells from such supplier could disrupt production of our products. Furthermore, fluctuations or shortages in raw materials or components and other economic conditions may cause us to experience significant increases in freight charges and material costs. Substantial increases in the prices for our materials, such as those charged by battery cell suppliers, would increase our operating costs, and could reduce our margins if the increased costs cannot be recouped through increased system or solution sales prices. Any attempts to increase prices in response to increased material costs could result in cancellations of orders and reservations and therefore materially and adversely affect our brand, business, prospects, financial condition and operating results.

We rely heavily on supply chain reliability and predictability and continued disruption in our supply chain could have a material adverse impact on operations and commercialization of our core systems.

We continue to experience supply chain challenges, including increases in the cost of and interruptions in the supply or availability of components, parts and materials, including long lead-times. It is unclear how long these challenges will remain. Due to the complexity of our products, we must effectively secure and manage our supply of several thousand components. Any sustained supply interruption or shortage or cost increases that result in our products being priced beyond what customers are willing to pay would prevent or delay the commercialization of our products or require us to sell products at a loss until we are able to reduce costs, whether through volume production synergies or otherwise, either of which could materially and negatively impact our business, prospects, financial condition and operating results. Delays may be compounded if components require redesign or reengineering. We and our suppliers use various materials in our businesses and products, including for example semiconductors, energy storage materials, commodity materials and specialty metal alloys, and the prices for these materials fluctuate. The available supply of some of these materials and components is currently and may continue to be unstable. There are significant risks and challenges to our supply chain that could delay our continued development efforts and production of commercial systems and solutions, and therefore delivery to customers could be delayed beyond current expectations, including the following:

- “Buy American” or other similar requirements that may be imposed on government contractors;
- an increase in the cost, or decrease in the available supply, of semiconductor chips, electrical components, commodity materials and specialty alloys;
- import or export restrictions on parts, materials and components;
- the ongoing effects of the COVID-19 pandemic and general labor shortages, or other pandemics, epidemics or outbreaks, which has affected and is likely to continue to affect our ability to recruit skilled employees to join our team, negatively affecting the development, production and commercial launch timelines for our products;
- geopolitical and economic events and conditions, such as inflation, labor shortages and war, as well as responses to such events and conditions (e.g., economic sanctions);
- disruption in the supply of lithium-ion batteries due to quality issues, recalls or other factors;
- disruption in global logistics, such as increased rates, constrained capacity and extended shipping delays;

- fluctuations in the value of any foreign currencies in which manufactured parts, commercial components and related raw material purchases are or may be denominated against the U.S. dollar; and
- Unpredictable lead-times for materials and components, some that may take more than 12 months to acquire.

Design or manufacturing flaws, defects, glitches, bugs or malfunctions in our products, including the software that operates them, failure of our products to perform as expected, connectivity issues or user errors can result in product recalls, lower than expected return on investment for customers, harm to users and significant safety concerns, each of which could materially and adversely affect our results of operations, financial condition or reputation.

The design, manufacture and marketing of our products involve certain inherent risks. Manufacturing or design defects, glitches, bugs, malfunctions, connectivity issues between the central processing unit and the robotic system or solution, unanticipated use of our robotic systems or solutions, user errors or inadequate disclosure of risks relating to the use of the robotic systems and solutions, among others, can lead to injury, property damage or other adverse events. We conduct extensive testing of our systems and solutions, in some instances in collaboration with our customers, to ensure that any such issues can be identified and addressed in advance of commercial launch of the products. However, we may not be able to identify all such issues or, if identified, efforts to address them may not be effective in all cases, and our product testing may not be adequate. Injuries to users have occurred during the testing of our systems. We conduct investigations to identify the cause or causes of incidents and, when appropriate, implement changes to testing protocols or to the systems and solutions to prevent such incidents from reoccurring. However, any implemented improvements may not fully prevent similar or other incidents in the future. Moreover, because of the size and weight of the systems and solutions, and the nature and variability of the environments in which we expect these products to be used, such as subsea, airport tarmacs, solar fields, manufacturing, assembly lines, construction, field service, warehouses, hazardous environments and at-height environments, adverse events relating to the use of our products could include significant injuries or even death. To the extent that design or manufacturing defects, glitches, bugs, malfunctions or connectivity issues between the central processing unit and the robotic system or solution are discovered during or after the production of pre-commercial and/or commercial systems and solutions, we have experienced and will experience delays in the initial production and/or continued production of our commercial products while the issues are resolved. If the issues cannot be adequately resolved, production of the affected products may not occur and/or resume.

Although we are designing our products to include important safety features and, in some cases, accommodate customer-specialized protective gear and fall-prevention devices, we may not be able to successfully incorporate sufficient redundancy or other safety features to avoid injuries in the commercial version of the product.

In addition, we may not be aware of design or manufacturing defects until injury to person or property has occurred. Such adverse events could lead to recalls or safety alerts relating to our products (either voluntary or required by governmental authorities), and could result, in certain cases, in the removal of our products from the market. A recall could result in significant costs. To the extent any manufacturing defect occurs, and such products are manufactured for us by third parties, our agreement with the third-party manufacturer may contain a limitation on the third-party manufacturer's liability, and therefore we could be required to incur the majority of related costs. Product defects or recalls could also result in negative publicity, damage to our reputation or, in the event of regulatory developments, delays in new product approvals.

Our robotic systems and solutions incorporate sophisticated computer software and firmware. Complex software and firmware frequently contain errors, especially when first introduced. Our software and/or firmware may experience errors or performance problems in the future. A failure of any part of our hardware or software could result in property damage, serious injury or even death. Additionally, users may not use our products in accordance with safety protocols and training, which could amplify the risk of death or injury. Customers and operators also may fail to install updates and fixes to the software for several reasons including poor connectivity, inattention or failure to regularly dock our systems and solutions. Any such occurrence could cause delay in market acceptance of our products, damage to our reputation, product recalls, increased service and warranty costs, product liability claims and loss of revenue.

We anticipate that in the ordinary course of business we may be subject to product liability claims alleging defects in the design or manufacture of our products. A product liability claim, regardless of its merit or eventual outcome, could result in significant legal defense costs and high punitive damage payments, damage to our reputation or require significant costs to redesign or fix our products. Although we maintain product liability insurance, the coverage is subject to deductibles and limitations, and may not be adequate to cover future claims. Additionally, we may be unable to maintain our existing product liability insurance in the future at satisfactory rates or adequate amounts.

Even if our products perform properly and are used as intended, if users sustain any injuries while operating our systems or solutions or third-party systems or solutions that use our AI autonomy software, or if users injure others while operating those products, we could be exposed to liability and our results of operations, financial condition and reputation may be adversely affected.

Our systems and solutions (and third-party systems that may in the future use our AI autonomy software platform) contain complex technology and must be used as designed and intended in order to operate safely and effectively. We expect that users will generally use or control these products from a distance. While we expect to develop training, customer service and maintenance and servicing infrastructure to ensure users are equipped to operate these products in a safe manner, we cannot be sure that the products will ultimately be used as designed and intended. In addition, we cannot be sure that we will be able to predict all the ways in which use or misuse of these products can lead to injury or damage to property, and our training resources and safety systems may not be successful at preventing all incidents. If users were to sustain injuries or cause damage to property while operating these products, in a manner consistent with our training and instructions or otherwise, we could be exposed to liability and our results of operations, financial condition and our reputation may be adversely affected.

We have no experience maintaining or servicing our products at a large scale.

We may agree to cover maintenance and servicing of the systems and solutions purchased by our customers. However, we have no experience providing maintenance and servicing at a large scale. We may elect to partner with one or more third parties to perform some or all of the servicing and maintenance of these products, but we may not be able to enter into an acceptable arrangement with any such third-party provider. Although such servicing partners may have experience in servicing complex machinery, they will initially have limited experience in servicing our robotic systems and solutions. If we are unable or elect not to enter into a partnership with third parties to perform maintenance and servicing, we may be required to provide such services directly, which could significantly increase our capital expenditures and personnel costs. We would also be required to recruit and train employees to provide these services and we may not be able to attract persons with the necessary knowledge or experience to provide these services. Delays in implementing a maintenance and servicing infrastructure may significantly delay sales of our products if customers are unwilling to purchase products with limited maintenance and servicing capacity.

In addition, our service and maintenance arrangements may not adequately address the service and maintenance requirements of our customers to their satisfaction, and we and our servicing partners may not have sufficient resources, experience or inventory to meet these service requirements in a timely manner as the volume of robotic systems and solutions we deliver increases. Even if we and our servicing partners have the resources and experience needed, we and our servicing partners still may not adequately service or maintain the systems and solutions. If we are unable to, directly or through third-party partners, roll out and establish a widespread service network, including on-site services, customer satisfaction could be adversely affected, which in turn could materially and adversely affect our reputation and thus our sales, results of operations and prospects.

Our customers will also depend on our customer support team to resolve technical and operational issues relating to the integrated software underlying our robotic systems and solutions and our AI autonomy software platform. Customer behavior and usage may result in higher-than-expected maintenance and repair costs or warranty claims.

As we grow, additional pressure may be placed on our customer support team or partners, and we may be unable to respond quickly enough to accommodate short-term increases in customer demand for technical support. We also may be unable to modify the future scope and delivery of our technical support to compete with changes in the technical support provided by our competitors. Increased customer demand for support, without corresponding revenue, could increase costs and negatively affect our operating results. If we are unable to successfully address the service requirements of our customers or we establish a market perception that we do not maintain high-quality support, we may be subject to claims from our customers, including loss of revenue or damages, and our business, prospects, financial condition and operating results may be materially and adversely affected.

Our expected transition to an outsourced manufacturing business model may not be successful, which could harm our ability to deliver products and recognize revenue.

We intend to transition from a manufacturing model in which we primarily manufacture and assemble our products at a smaller scale at our facilities, to one where we rely on one or more third-party manufacturers. We believe the use of third-party manufacturers will have benefits, but during a transition we may incur delays, lost revenue and increased costs. Further, reliance on third-party manufacturers reduces our control over the manufacturing process, including reduced control over quality, product costs and product supply and timing. We have recently entered into an agreement with a contract manufacturer and expect to generally outsource manufacturing of our products over time. However, engaging with a manufacturing partner will likely require significant time, ramp-up, testing and coordination before high-volume production capability by the partner is achieved. Further, the timing of this process will likely be delayed due to our new sales and product development strategy. We currently do not anticipate high-volume production by our contract manufacturing partner to be in place until after 2023. We expect that this contract manufacturing partner will initially focus on helping us produce product sub-systems. With our refined sales strategy and focus products, we may be unable to successfully transition our contract manufacturing partner to our new focus products, provide it with sufficient volume or otherwise maintain the relationship. However, we believe we have sufficient internal manufacturing capacity to meet near-term demand for our focus products.

Our future third-party manufacturers may not be able to develop efficient, automated, low-cost production capabilities and processes and reliable sources of component supply to enable us to meet the quality, price, engineering, design and production standards, as well as the production volumes, required to successfully mass market our robotic systems and solutions. Even if we and our third-party manufacturers are successful in developing high-volume production capability and processes and reliably sourcing components, we may not be able to avoid significant delays and cost overruns, including as a result of factors beyond our control such as:

- interruptions, delays or disruptions in supplying our products, including by natural disasters, the global COVID-19 pandemic, other health epidemics and outbreaks, geopolitical events, work stoppages capacity constraints, or force majeure events;
- unfavorable economic conditions which may result in financial distress thereby increasing the risk of disruption of supplies; and
- quality control problems in their manufacturing operations, which may require us to recall our products or cover the cost of repair or replacement of any defective products.

These delays or product quality issues could have an immediate and material adverse effect on our ability to fulfill orders and on our operating results. In addition, such delays or issues with product quality could adversely affect our reputation and our relationship with our customers.

If any third-party manufacturers experience financial, operational, manufacturing capacity or other difficulties, or experience shortages in required components, or if they are otherwise unable or unwilling to continue to manufacture our products in required volumes or at all, our supply may be disrupted, we may be required to seek alternate manufacturers and we may be required to re-design our products. It would be time-consuming, and could be costly and impracticable, to begin to use new manufacturers and designs, and such changes could cause significant interruptions in supply and could have an adverse effect on our ability to meet our scheduled product deliveries and may subsequently lead to the loss of sales.

If we are unable to successfully outsource a significant portion of our production to third-party manufacturers on acceptable terms, we will need to rely on our own manufacturing capacity and may need to develop additional manufacturing and production facilities and capabilities, which would significantly increase our capital expenditures, would likely delay production of our robotic systems and solutions. and may not be feasible. Further, we recently announced our intention to optimize internal manufacturing facilities in Salt Lake City. If we later decide to engage in significant manufacturing activities in Pittsburgh (or elsewhere), we may incur significant costs to re-establish that capability. If any of these events were to occur, we would need to raise or borrow additional capital, which may not be available on terms acceptable to us or at all, and possibly change our product pricing expectations, which could adversely affect our margins and cash flows. We have no experience to date in high volume manufacture of our products, nor do we have the facility, employees or equipment needed to manufacture our products in high volumes.

We and our suppliers and any manufacturing partners may rely on complex machinery for production, which involves a significant degree of risk and uncertainty in terms of operational performance and costs.

We and our suppliers and any manufacturing partners may rely on complex machinery for the production and assembly of our robotic systems and solutions, which will involve a significant degree of uncertainty and risk in terms of operational performance and costs. Our facilities, and those of any third-party manufacturing partners and suppliers, consist or are expected to consist of large-scale machinery combining many components. These components may suffer unexpected malfunctions from time to time and will depend on repairs and spare parts to resume operations, which may not be available when needed. Unexpected malfunctions of these components or machines may significantly affect the intended operational efficiency. Operational performance and costs can be difficult to predict and are often influenced by factors outside of our or any third-party manufacturing partners' and suppliers' control, such as scarcity of natural resources, environmental hazards and remediation, costs associated with decommissioning of machines, labor disputes and strikes, difficulty or delays in obtaining governmental permits, damages or defects in electronic systems, industrial accidents, fire, seismic activity and natural disasters. Should operational risks materialize, it may result in the personal injury to or death of workers, the loss of production equipment, damage to production facilities, monetary losses, delays and unanticipated fluctuations in production, environmental damage, administrative fines, increased insurance costs and potential legal liabilities, all of which could have a material adverse effect on our business, prospects, financial condition and operating results.

Our business and prospects depend significantly on our ability to build our brand. We may not succeed in continuing to establish, maintain and strengthen our brand, and our brand and reputation could be harmed by negative publicity regarding us or our products.

Our business and prospects are heavily dependent on our ability to develop, maintain and strengthen our brand. If we do not continue to establish, maintain and strengthen our brand, we may lose the opportunity to build a critical mass of customers. Promoting and positioning our brand will likely depend significantly on our ability to provide high quality products and engage with our customers as intended. In addition, our ability to develop, maintain and strengthen our brand may depend on the acceptance of our products by employees of our customers. To promote our brand, we may be required to change or expand our customer development and branding practices, which could result in substantially increased expenses. If we do not develop and maintain a strong brand, our business, prospects, financial condition and operating results will be materially and adversely impacted.

In addition, if safety incidents occur or are perceived to have occurred, whether or not such incidents are our fault, we could be subject to adverse publicity or resistance by employees of our customers or labor unions. In particular, given the popularity of social media, any negative publicity, whether true or not, could quickly proliferate and harm perceptions and confidence in our brands. Furthermore, there is the risk of potential adverse publicity related to our manufacturing or other partners whether or not such publicity is related to their collaboration with us. Our ability to successfully position our brand could also be adversely affected by perceptions about the quality of our competitors' products.

Our management team has broad discretion in making strategic decisions to execute our growth plans, and our management's decisions may not be successful in achieving our business objectives or may have unintended consequences that negatively impact our growth prospects.

Our management has broad discretion in making strategic decisions to execute our growth plans and may devote time and company resources to new or expanded product offerings, potential acquisitions, prospective customers or other initiatives that do not necessarily improve our operating results or contribute to our growth. On July 12, 2023 we announced a shift in product development and commercialization strategy to focus on products that we believe have the most potential for near-term revenue growth and strategic opportunities that we believe show the greatest market traction and meet an acute customer need, as well as a new Advanced Technologies division to focus on commercializing our AI/ML software platform to enable generalizable autonomy, which may not prove to be effective. Any failure by management to make strategic decisions that are ultimately accretive to our growth may result in unfavorable returns and uncertainty about our prospects, each of which could cause the price of our Common Stock to decline and have a material adverse effect on our business, prospects, financial condition and results of operations.

If we fail to effectively manage our growth, we may not be able to design, develop, manufacture, market and launch our robotic systems and solutions successfully.

We had a reduction in force in July 2023 affecting approximately 24% of the Company's workforce as part of our efforts to decrease our costs in the current macroeconomic environment and create a more streamlined organization to support our business. However, this reduction in force may place additional strain on our existing resources, and we could experience systemic operating difficulties in managing our business. Any failure to manage our growth effectively could materially and adversely affect our business, prospects, financial condition and operating results. As we grow our business, we may need to manage the following activities, among others:

- expanding our management, engineering and product teams;
- identifying and recruiting individuals with the appropriate relevant experience;
- hiring and training new personnel;
- commercializing our products;
- forecasting production and revenue and implementing enterprise resource planning (ERP) systems;
- entering into relationships with one or more third-party design for manufacturing partners and third-party manufacturers and/or expanding our internal manufacturing capabilities;
- potentially carrying out acquisitions and entering into collaborations, in-licensing arrangements, joint ventures, strategic alliances or partnerships;
- expanding and enhancing internal information technology, safety and security systems;
- establishing or expanding sales, customer service and maintenance and servicing facilities and organizations;
- conducting demonstrations and customer trials of robotic systems and solutions;
- entering into agreements with suppliers and service providers; and

- implementing and enhancing administrative infrastructure, systems and processes.

In the future, we may need to hire additional personnel, including engineers, design and production personnel and service technicians for our robotic systems and solutions, whether due to growth of our business, unwanted attrition, a lack of certain skills or otherwise. Because of the innovative nature of our technology, individuals with the necessary experience have not been, and likely will continue not to be, readily available to hire, and as a result, we will need to expend significant time and expense to recruit and retain experienced employees and appropriately train any newly hired employees. Competition for individuals with the experience designing, producing and servicing dexterous robots and AI software is intense, and we may not be able to attract, integrate, train, motivate or retain additional highly qualified personnel. Integrating new employees can cause disruptions to processes, projects, culture, priorities and a company as a whole. Further, as a result of our recent reduction in force, we have re-organized our operations, which has resulted in some employees having different reporting relationships, team members or responsibilities, which could result in delays or other operational difficulties as employees become accustomed to the new organizational structure. New employees may not perform as expected or may not fit culturally, and long-term employees may not embrace new leaders, priorities, methods, processes or other changes and may decide to leave or may not perform as well as in the past. Any failure to attract, integrate, train, motivate and retain employees or difficulty adjusting to a larger organization with new leadership and a new employees could significantly delay our product development and commercial release and materially harm our business, prospects, financial condition and operating results.

We may be unable to adequately control the costs associated with our operations.

We will require significant capital to develop and grow our business, including developing and producing our commercial robotic systems and solutions and other products (including our commercial AI autonomy software platform), establishing or expanding our design, research and development, production, sales and maintenance and service capabilities and building our brands. We have incurred and expect to continue incurring significant expenses which will impact our profitability, including research and development expenses, procurement costs, sales, marketing and distribution expenses as we build our brand and market our products and general and administrative expenses as we scale our operations, identify and commit resources to investigate new areas of demand and incur costs as a public company. Some of the factors that may lead to cost increases are outside of our control, such as national or global geopolitical and economic conditions, including inflation or increases in interest rates. In addition, we may incur significant costs servicing or maintaining our robotic systems and solutions, and we expect that the cost to repair and service our robotic systems and solutions will increase over time as our robotic systems and solutions age. Our ability to become profitable in the future will not only depend on our ability to complete the design and development of our products to meet projected performance metrics and identify and investigate new areas of demand and successfully market our products, but also on our ability to sell our products at prices needed to achieve sufficient margins and control our costs, including the risks and costs associated with any maintenance and service obligations that we may undertake and warranty obligations. If we are unable to efficiently design, develop, manufacture, market, deploy, distribute and service our products in a cost-effective manner, our margins, profitability and prospects would be materially and adversely affected.

We expect to incur substantial research and development costs and devote significant resources to identifying and commercializing new and current products, which could significantly reduce our profitability and may never result in revenue.

Our future growth depends on penetrating new markets, adapting existing products to new applications and customer requirements and introducing new products that achieve market acceptance. We plan to incur substantial, and potentially increasing, research and development costs as part of our efforts to design, develop, enhance, manufacture and commercialize new products and product currently under development, including products targeting our areas of focus: subsea, aviation, solar field installation and a commercial AI autonomy software platform. Our research and development expenses were $21.1 million for the six months ended June 30, 2023, and $34.1 million for the year ended December 31, 2022. Our research and development program may not produce successful results or, be sufficient to adapt to new or changing technologies (such as artificial intelligence), and our products may not achieve market acceptance, create additional revenue or become profitable.

We face risks related to natural disasters, health epidemics and other calamities, which could significantly disrupt our operations.

Our facilities or operations or those of any third-party manufacturers or suppliers could be adversely affected by events outside of our or their control, such as natural disasters, wars, health epidemics and other calamities and force majeure events. See "*Ongoing impacts from COVID-19 or another pandemic, epidemic or outbreak of an infectious disease may materially and adversely impact our business, prospects, financial condition and operating results.*" Although we have servers that are hosted both onsite and at an offsite location, our backup system does not capture data on a real-time basis and we may be unable to recover certain data in the event of a server failure. Our backup system may not be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or the malfunction of software or hardware, as well as adversely affect our ability to provide services.

Ongoing impacts from COVID-19 or another pandemic, epidemic or outbreak of an infectious disease may materially and adversely impact our business, prospects, financial condition and operating results.

The COVID-19 pandemic has adversely impacted our business, and it, as well as other possible health pandemics, epidemics or outbreaks, may materially and adversely impact our business, prospects, financial condition and operating results in the future. Our engineering and product development operations, among others, cannot all be conducted in a remote working structure and often require on-site access to materials and equipment. We have customers with international operations in varying industries. We also depend on suppliers and manufacturers worldwide. We are currently experiencing disruptions and delays in our supply chain, as discussed under "*We rely heavily on supply chain reliability and predictability and continued disruption in our supply chain could have a material adverse impact on operations and commercialization of our core systems.*" Depending upon the duration of the ongoing effects of the COVID-19 pandemic, which may linger for some time even if significant health risks abate, our customers, suppliers, manufacturers and partners may suspend or delay their engagement with us or take other actions or experience their own negative impacts, any of which could result in a material adverse effect on our financial condition and ability to meet current timelines. The COVID-19 pandemic has adversely affected and may continue to adversely affect our ability to recruit skilled employees to join our team and to meet our product development timelines. Our response to the ongoing COVID-19 pandemic and its ongoing impacts on our supply chain and business activities may prove to be inadequate, and we may be unable to operate in the manner necessary to avoid interruptions, reputational harm and delays in our product development and shipments, any of which could have a material adverse effect on our business, prospects, financial condition and operating results. In addition, pre-COVID-19 supply chain, economic and business conditions may not ever return.

Risks Related to Our Finances

Our business plans require a significant amount of capital. Our future capital needs may require us to sell additional equity or debt securities that may dilute our stockholders or introduce covenants that may restrict our operations or our ability to pay dividends.

Although we believe we have sufficient capital to fund our business for at least the next 12 months, we may seek additional financing during that time to bolster our cash reserves and ensure our ability to continue to pursue our business objectives. As sales volumes increase, we may seek outside financing to help cover production costs for product orders. In addition, we have taken numerous steps to manage our use of cash and believe we have sufficient capital to fund our business for at least the next 12 months without seeking additional capital. For example, on July 12, 2023 we announced a reduction in force ("RIF") intended to further conserve our current cash resources and manage operating expenses. We believe we have sufficient liquidity to operate into 2025 without the need to raise additional capital. Our current business plans likely will require us to secure additional financing prior to achieving positive operating cash flows, and we do not anticipate achieving positive operating cash flows until at least 2025. As a result, we intend to continue monitoring our liquidity, financial and business results and outlook and market conditions, and may be opportunistic and raise capital when we consider market conditions are good or a favorable opportunity exists to bolster our cash reserves, reduce our financial risk, help finance product manufacturing and inventory costs and pursue business objectives. We currently have no plans to do an equity financing in 2023, but we could change our plans if we determine it to be necessary or advisable. Any delays in the successful commercialization and sales of our products will negatively impact our ability to generate revenue, our profitability and our overall operating performance and result in the need to raise additional capital sooner than expected.

Even after achieving positive operating cash flows, we may need to raise significant amounts of additional capital to fund our business thereafter, including to finance ongoing research and development costs, manufacturing, any significant unplanned or accelerated expenses and new strategic alliances or acquisitions. The fact that we have limited experience commercializing our products on a large scale, coupled with the fact that our products represent new product categories or advancements in the commercial and industrial robotics and AI autonomy software markets, means we have limited to no historical data on the demand for our products. In addition, we expect our capital expenditures to continue to be significant in the foreseeable future as we complete the design, testing and launch of commercial products, and that our level of capital expenditures will be significantly affected by customer demand for our products. As a result, our future capital requirements are uncertain and actual capital requirements may be different from those we currently anticipate. We may need to seek equity or debt financing to finance a portion of our capital expenditures, and such financing might not be available to us in a timely manner or on terms that are acceptable, or at all.

Our ability to obtain any necessary financing to carry out our business plan is subject to a number of factors, including general market conditions and investor acceptance of our business model. These factors may make the timing, amount, terms and conditions of such financing unattractive or unavailable to us. If we are unable to raise sufficient funds, we will have to significantly reduce our spending, delay or cancel our planned activities or substantially change our corporate structure. We might not be able to obtain any funding, and might not have sufficient resources to conduct our business as projected, both of which could mean that we would be forced to curtail or discontinue our operations.

In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our stockholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financing covenants that would restrict our operations.

If we cannot raise additional funds when we need or want them, our operations, prospects and financial condition could be materially and adversely affected.

Our recent initiatives to improve our cost structure, including significant workforce reductions, may not result in the anticipated savings, could result in total costs and expenses that are greater than expected and could disrupt our business.

In July 2023, we implemented a reduction in force affecting approximately 71 employees, representing approximately 24% of our workforce, as part of our initiatives to improve our cost structure. This reduction in force is expected to result in approximately $14.6 million of annualized cost savings in total. However, we may incur additional expenses not currently contemplated due to events associated with the reduction in force. The annualized cost savings are estimates and subject to a number of assumptions, and actual results may differ materially. We may not realize, in full or in part, the anticipated benefits and savings from this reduction in force due to unforeseen difficulties, delays or unexpected costs. If we are unable to realize the expected operational efficiencies and cost savings from the reduction in force, our operating results and financial condition would be adversely affected. In addition, we may need to undertake additional workforce reductions or restructuring activities in the future. Furthermore, our initiatives to improve our cost structure, including the reduction in force, may be disruptive to our operations. For example, our workforce reductions could yield unanticipated consequences, such as attrition beyond planned staff reductions, the loss of institutional knowledge and expertise, increased difficulties in our day-to-day operations, reduced employee morale and diversion of our management's and employees' attention from other business priorities. If employees who were not affected by the reduction in force leave our employ, we may need to seek contractor support at unplanned additional expense or harm our productivity. In addition, we may be unsuccessful in distributing the duties and obligations of departed employees that are necessary to our operations among our remaining employees or to contractors, which could result in disruptions to our operations. Our workforce reductions could also harm our ability to attract and retain qualified personnel who are critical to our business, and make it difficult for us to pursue new opportunities and initiatives and require us to hire qualified replacement personnel. Any failure to attract or retain qualified personnel could prevent us from successfully developing or selling our products, which would adversely affect our business, financial condition, and results of operations.

Our financial results may vary significantly from period to period due to fluctuations in our operating costs, product demand and other factors.

We expect our period-to-period financial results to vary based on our operating costs and product demand, which we anticipate will fluctuate as the pace at which we continue to design, develop, release and manufacture products, increase production capacity and establish or expand design, research and development, production, sales and service activities and/or facilities fluctuates. Additionally, our revenue from period to period may fluctuate as we identify and investigate areas of demand, adjust volumes and add new product derivatives based on market demand and margin opportunities and develop and introduce new products or introduce existing products to new markets for the first time, and as product sales mix varies and our product development contract revenue fluctuates. As a result of these factors, we believe that quarter-to-quarter comparisons of our financial results, especially in the near term, are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our financial results may not meet expectations of equity research analysts, ratings agencies or investors, who may be focused only on quarterly financial results. If any of this occurs, the trading price of our securities could fall substantially, either suddenly or over time, and/or experience significant volatility.

We are or may be subject to risks associated with strategic alliances or acquisitions and may not be able to identify adequate strategic relationship opportunities, or form strategic relationships, in the future.

We may seek to enter into strategic alliances, joint ventures, minority equity investments, acquisitions, collaborations and in-license arrangements. There is no guarantee that any of these partnerships or acquisitions would lead to any binding agreements or lasting or successful business relationships with third parties or that any of the other anticipated benefits will be achieved. If any of these relationships are established, they may subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third-party and increased expenses in establishing new relationships, any of which could materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic partners suffers negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third-party.

We expect that strategic business relationships will be an important factor in the growth and success of our business. However, we may not be able to identify or secure suitable business relationship opportunities in the future or our competitors may capitalize on such opportunities before we do. Moreover, identifying such opportunities could require substantial management time and resources, and negotiating and financing relationships involves significant costs and uncertainties. If we are unable to successfully source and execute on strategic relationship opportunities in the future, our overall growth could be impaired, and our business, prospects, financial condition and operating results could be materially adversely affected.

When appropriate opportunities arise, we have in the past, and may in the future acquire additional assets, products, technologies or businesses that are complementary to our existing business. From time to time, the sellers of these assets, products and technologies or businesses may retain certain rights to the technology that they sell to us, which in some circumstances could allow the sellers to compete with us. In addition to possible stockholder approval, we may need approvals and licenses from relevant government authorities for acquisitions and to comply with any applicable laws and regulations, which could result in delays and costs, and may disrupt our business strategy if we fail to do so. Furthermore, acquisitions and the subsequent integration of new assets and businesses into our own require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our operations and financial results. Acquired assets or businesses may not generate the financial results we expect. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. For example, we have previously experienced an impairment of all of the goodwill associated with our acquisition of RE2. Moreover, the costs of identifying and consummating acquisitions may be significant.

Our operating and financial projections rely on management assumptions and analyses. If these assumptions or analyses prove to be incorrect, our actual operating results may be materially different from our forecasted results.

We are a development stage company, with very limited experience commercializing our products. Our projected financial and operating information reflect estimates of future performance and are based on multiple business, financial, technical and operational assumptions, including timely hiring or any needed personnel, timing of commercial launch of our products, the level of demand for our products, the size of our target markets, the performance of our products, the utilization of the products, product pricing, the useable life of our robotic systems and solutions, cost of manufacturing, cost of components and availability of adequate supply, number of systems that will need to be manufactured in each batch, the nature and length of the sales cycle and maintenance and servicing costs. However, given our limited commercial experience, it is likely that many of these assumptions will prove incorrect. Projections and other statements about future expectations are forward-looking statements that are inherently subject to significant risks, uncertainties and contingencies, many of which are beyond our control (in addition to the information contained in these Risk Factors, see "*Special Note Regarding Forward-Looking Statements*" *and* "*Management's Discussion and Analysis of Financial Condition and Results of Operations*").

We are highly dependent on the services of our senior management and other key employees and, if we are unable to attract and retain a sufficient number of qualified employees, our ability to design, manufacture and launch our products, operate our business and compete could be harmed.

Our success depends, in part, on our ability to retain our key personnel. The unexpected loss of or failure to retain one or more of our senior managers or other key employees could delay product development and require outsourcing to third parties, each of which in turn could adversely affect our business. We have recently experienced several changes in our senior management team. Our future performance will depend, in part, on the successful transition of our workforce to our new operating and organizational structure following our recent reduction in force. If we do not successfully manage these transitions, it could be viewed negatively by our customers, employees, investors, and other third-party partners, and could have an adverse impact on our business and results of operations.

Our success also depends, in part, on our continuing ability to identify, hire, attract, train and develop other highly qualified personnel. Experienced and highly skilled employees are in high demand and competition for these employees can be intense, and our ability to hire, attract and retain them depends on our ability to provide competitive compensation. We may not be able to attract, assimilate, develop or retain qualified personnel in the future, and our failure to do so could adversely affect our business, including the execution of our strategy. Given our recent reduction in force, we may have increased difficulty attracting and retaining highly qualified personnel. Our headquarters are in Salt Lake City, Utah, which has fewer highly skilled employees in the robotics field than other major metropolitan areas. To attract and retain key personnel, we may need to open offices in other areas of the country, which could increase costs and reduce productivity. As a result of our acquisition of RE2, a significant number of our employees are located in Pittsburgh, Pennsylvania. As an organization, we do not have meaningful experience managing two large facilities and employee bases in different geographies and across different time zones. Any failure by our management team and our employees to perform as expected may have a material adverse effect on our ability to design, manufacture and launch our products or to operate our business and compete, as well as on our business, prospects, financial condition and operating results.

Our management as a group has limited experience in operating a publicly-traded company.

Although some members of our management have public company experience, our management team may not successfully or effectively manage operating as a public company subject to significant regulatory oversight and reporting obligations under U.S. securities laws. Our officers as a group have limited experience in the management of a publicly-traded company. Their limited experience in dealing with the increasingly complex laws pertaining to public companies could be a significant disadvantage in that it is likely that an increasing amount of their time may be devoted to these activities, which will result in less time being devoted to the management and growth of our company. Although we have hired personnel experienced in managing and addressing the obligations of a publicly-traded company, we will likely need to continue to recruit and hire additional persons in order to handle the increased demands of running a public company, but our efforts may not be successful. We may not have adequate personnel with the appropriate level of knowledge, experience and training in the accounting policies, practices or internal control over financial reporting required of public companies. Any failure by us to effectively and efficiently meet our obligations as a publicly-traded company could have a material adverse effect on our business, prospects, financial condition and operating results and/or result in legal liability or other negative consequences.

We incur significant expenses and administrative burdens as a publicly-traded company, which could have a material adverse effect on our business, prospects, financial condition and operating results.

As a publicly-traded company, we are incurring legal, accounting and other expenses that we previously did not have, and these expenses may increase as we continue to implement and strengthen controls, processes and systems and to hire related personnel and after we are no longer an emerging growth company, as defined in Section 2(a) of the Securities Act. We are subject to reporting and other requirements of the Exchange Act, the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules adopted by the SEC and Nasdaq. Our management and other personnel will be devoting a substantial amount of time to these compliance initiatives. We have expanded our employee base and we will need to hire additional employees to support our operations as a public company, which will increase our operating costs in future periods. Moreover, these rules and regulations have substantially increased our legal and financial compliance costs and make some activities more time-consuming and costly. These increased costs have increased our net loss. For example, it has been more difficult and more expensive for us to obtain director and officer liability insurance and we have incurred substantially higher costs to obtain appropriate coverage than we incurred as a private company. We cannot accurately predict or estimate the amount or timing of all the additional costs we may incur. The impact of being a public company could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. Such increased expenses and administrative burdens involved in operating as a public company could have a material adverse effect on our business, financial condition and operating results.

If we fail to maintain and strengthen effective systems of disclosure controls and procedures and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be adversely affected.

We expect that the requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of Nasdaq will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls, internal control over financial reporting and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers in a timely manner. We have been integrating our finance and accounting systems following our acquisition of RE2 to a common enterprise system, and a delay or other issues with the integration could impact our ability or prevent us from timely reporting our operating results, timely filing required reports with the SEC and complying with Section 404 of the Sarbanes-Oxley Act. The development and implementation of the processes and controls necessary for us to achieve the level of accounting standards required of a public company have increased and may continue to increase our legal and compliance costs, and such costs may be greater than expected.

Our current controls and any new controls that we develop may be inadequate because of changes in conditions of our business or otherwise. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could adversely affect our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting to the extent we are required to include such evaluations and reports in our periodic reports that we file with the SEC under Section 404 of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information. See "*As a result of prior material weaknesses, the Restatement, the change in accounting for the Private Placement Warrants and other matters raised or that may in the future be raised by the SEC, we face the potential for litigation or other disputes, which may include claims invoking U.S. federal and state securities laws, contractual claims or other claims*."

In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we expect to continue to expend significant resources, including accounting-related costs, and provide significant management oversight. Any failure to maintain the adequacy of our internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase operating costs and could materially and adversely affect our ability to operate our business. If our internal controls are or are perceived to be inadequate or if we are or are perceived to be unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and the trading price of our securities could decline.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until after we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Any failure to maintain effective disclosure controls and procedures and internal control over financial reporting could have a material and adverse effect on our business, prospects, financial condition and operating results.

Our ability to use net operating loss carryforwards and other tax attributes may be limited in connection with ownership changes.

We have incurred losses during our history and do not expect to become profitable in the near future, and we may never achieve profitability. To the extent that we continue to generate tax losses, unused losses will carry forward to offset future taxable income, if any, until such unused losses expire.

Under the Tax Cuts and Jobs Act of 2017 (the Tax Act), as modified by the Coronavirus Aid, Relief and Economic Security Act of 2020 (the CARES Act), U.S. federal net operating loss carryforwards generated in taxable periods beginning after December 31, 2017, may be carried forward indefinitely, but the deductibility of such net operating loss carryforwards in taxable years beginning after December 31, 2020, is limited to 80% of taxable income. It is uncertain if and to what extent various states will conform to the Tax Act or the CARES Act. Suspensions or other restrictions on the use of net operating losses or tax credits, possibly with retroactive effect, may result in our existing net operating losses or tax credits expiring or otherwise being unavailable to offset future income tax liabilities.

In addition, our net operating loss carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), these U.S. federal net operating loss carryforwards and other tax attributes may become subject to an annual limitation in the event of certain cumulative changes in the ownership of our company. An “ownership change” pursuant to Section 382 of the Code generally occurs if one or more stockholders or groups of stockholders who own at least 5% of a company’s stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Our ability to utilize net operating loss carryforwards and other tax attributes to offset future taxable income or tax liabilities may be limited as a result of ownership changes. Similar rules may apply under state tax laws. If we earn taxable income, such limitations could result in increased future income tax liability to us and our future cash flows could be adversely affected. We have recorded a full valuation allowance related to our net operating loss carryforwards and other deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

Adverse events or perceptions affecting the financial services industry could adversely affect our operating results, liquidity, financial condition and prospects.

Limited liquidity, defaults, non-performance or other adverse developments affecting financial institutions or parties with which we do business, or perceptions regarding these or similar risks, have in the past and may in the future lead to market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank, or SVB was closed and placed in receivership. Subsequently, additional financial institutions have been placed into receivership. We did not hold cash deposits or other accounts with SVB and did not, and as of the date of this Report do not, otherwise have a direct business relationship with SVB or similarly situation financial institutions. The bulk of our financial assets, including our cash and investments in U.S. government securities, are held and managed within Bank of America and its affiliates (including Merrill Lynch). However, companies that did have a business relationship with SVB faced:

- delayed access to deposits or other financial assets or the uninsured loss of deposits or other financial assets;
- loss of access to existing revolving credit facilities or other working capital sources or the inability to refund, roll over or extend the maturity of, or enter into new credit facilities or other working capital resources;
- potential or actual breach of obligations, including U.S. federal and state wage laws and contracts that required them to maintain letters of credit or other credit support arrangements; and
- termination of cash management arrangements or delays in accessing or actual loss of funds subject to cash management arrangements.

As a result of U.S. government intervention, account holders subsequently regained access to their accounts, including the uninsured portion of deposit accounts. However, borrowers under credit agreements, letters of credit and certain other financial instruments with SVB and similarly situated financial institutions may be unable to access such sources of liquidity. There is no guarantee that the U.S. government will intervene to provide access to uninsured funds in the future in the event of failure of other financial institutions, or that they would do so in a timely fashion. In such an event, parties with which we have commercial agreements, including customers and suppliers, may be unable to satisfy their obligations to us or enter into new commercial arrangements with us.

Any of these risks could materially impact our operating results, liquidity, financial condition and prospects.

Risks Related to Claims, Legal and Regulatory Compliance

As a result of prior material weaknesses, the Restatement, the change in accounting for the Private Placement Warrants and other matters raised or that may in the future be raised by the SEC, we face the potential for litigation or other disputes, which may include claims invoking U.S. federal and state securities laws, contractual claims or other claims.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("GAAP"). Our management is likewise required, on a quarterly basis, to evaluate the effectiveness of our internal controls. A material weakness is a deficiency, or a 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.

Old Sarcos identified certain accounting errors related to its financial statements. As a result, Old Sarcos management concluded that a material weakness existed in its internal control over financial reporting related to the identification and review of technical issues associated with certain unique, unusual and nonstandard transactions within Old Sarcos' equity process. As a result of this material weakness, management concluded that its internal control over financial reporting was not effective as of December 31, 2020 and 2021. Management implemented new measures designed to remediate the previously identified material weakness and completed the testing necessary to conclude that the material weakness was remediated as of June 30, 2022.

On April 12, 2021, the Acting Director of the Division of Corporation Finance and Acting Chief Accountant of the SEC together issued a statement regarding the accounting and reporting considerations for warrants issued by special purpose acquisition companies entitled "Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies" (the "SEC Statement"). Following the issuance of the SEC Statement, after consultation with its independent registered public accounting firm, Rotor's management and its audit committee concluded that, in light of the SEC Statement, it was appropriate to restate the previously issued audited balance sheet as of January 20, 2021 (the "Restatement"). As part of such process, Rotor identified a material weakness in its internal control over financial reporting. As of December 31, 2021, management determined that this material weakness was remediated as the previously issued financial statements were restated and management is now accounting for the Private Placement Warrants in accordance with the SEC Statement.

To mitigate the potential for any future material weaknesses, we continue to devote significant effort and resources to the improvement of our internal control over financial reporting. Any failure to maintain effective internal control over financial reporting could adversely impact our ability to report our financial condition and results of operations on a timely and accurate basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations and could lose confidence in our reported financial information, which could negatively affect the trading price of our Common Stock. In addition, if our financial statements are not filed on a timely basis, we could be subject to sanctions, enforcement actions or investigations by Nasdaq, the SEC or other regulatory authorities or to private litigation. As a result, any failure to maintain effective internal control over financial reporting could result in a material adverse effect on our business and the price of our Common Stock.

Changes in tax laws could have a material adverse effect on our business, cash flows, results of operations or financial condition.

We are subject to the tax laws, regulations, and policies of several taxing jurisdictions. Changes in tax laws, as well as other factors, could cause us to experience fluctuations in our tax obligations and effective tax rates and otherwise adversely affect our tax positions and/or our tax liabilities. For example, many countries and local jurisdictions and organizations such as the Organization for Economic Cooperation and Development have proposed or implemented new tax laws or changes to existing tax laws, including additional taxes on payroll or employees. The Tax Act has eliminated the option to deduct research and development expenditures currently and instead required taxpayers to capitalize and amortize them over five or fifteen years beginning in 2022. The Inflation Reduction Act of 2022 has imposed a 1% excise tax on certain repurchases of stock. Any new tax laws or changes to existing tax laws could adversely affect our effective tax rate, operating results, tax credits or incentives or tax payments, which could have a material adverse effect on our business, cash flows, results of operations or financial condition.

We may become subject to new or changing governmental regulations relating to the design, manufacturing, marketing, distribution, servicing or use of our products, and a failure to comply with such regulations could lead to withdrawal or recall of our products from the market, delay our projected revenue, increase costs or make our business unviable if we are unable to modify our products to comply.

We may become subject to new or changing international, national, state and local regulations, including laws relating to the design, manufacturing, marketing, distribution, servicing or use of our products. Such laws and regulations may require us to pause sales and modify our products, which would likely result in a material adverse effect on our revenue and financial condition, especially if implemented on a large scale or in a key market. Such laws and regulations can also give rise to liability, such as fines and penalties or for property damage, bodily injury and cleanup costs. Capital and operating expenses needed to comply with laws and regulations can be significant, and violations may result in substantial fines and penalties, third-party damages, suspension of production or a cessation of our operations. Any failure to comply with such laws or regulations could lead to withdrawal or recall of our products from the market.

We may be subject to claims, lawsuits, arbitration proceedings, government investigations and other legal, regulatory and administrative proceedings and face potential liability and expenses related thereto, which could have a material adverse effect on our business, operating results and financial condition.

We may be subject to claims, lawsuits, arbitration proceedings, government investigations and other legal, regulatory and administrative proceedings. In addition, we may be subject to the heightened scrutiny that is sometimes directed toward companies taken public via a business combination with a special purpose acquisition company. The outcome of any such claims, investigations or proceedings cannot be predicted with any degree of certainty. In the ordinary course of business we have been and may in the future be the subject of various legal claims. Any such claims, investigations or proceedings against us, whether meritorious or not, could be time-consuming, result in costly litigation, be harmful to our reputation, require significant management attention and divert significant resources, and the resolution of any such claims, investigations or proceedings could result in substantial damages, settlement costs, fines or penalties that could adversely affect our business, financial condition or operating results or result in harm to our reputation and brand, sanctions, consent decrees, injunctions or other remedies requiring a change in our business practices.

Further, under certain circumstances we may have contractual or other legal obligations to indemnify and to incur legal expenses on behalf of investors, directors, officers, employees, customers, vendors or other third-parties. For example, our Amended and Restated Bylaws (the "Bylaws") provide that we will indemnify our directors and officers, and may indemnify our employees, agents and other persons, to the fullest extent permitted by the Delaware General Corporation Law. We have also entered into indemnification agreements with directors and officers that require us, among other things, to indemnify them against claims that may arise do to their service in those capacities. These indemnification agreements also require us to advance expenses reasonably and actually incurred by them in investigating or defending any such claims, and it may be difficult or impossible to recover any advanced expenses if it turns out the person was not entitled to indemnification. If we are required or agree to defend or indemnify, or advance expenses to, any of our investors, directors, officers, employees, customers, vendors or other third-parties, we could incur material costs and expenses that could adversely affect our business, results of operations or financial condition.

We are subject to evolving laws, regulations, standards, policies and contractual obligations related to data privacy and security, and our actual or perceived failure to comply with such obligations could harm our reputation, subject us to significant fines and liability or otherwise adversely affect our business, prospects, financial condition and operating results.

We are subject to or affected by a number of national, state and local laws and regulations, as well as contractual obligations and industry standards, that impose certain obligations and restrictions with respect to data privacy and security, and govern our collection, storage, retention, protection, use, processing, transmission, sharing and disclosure of personal information, including that of our employees, customers and others. Many jurisdictions have enacted laws requiring companies to notify individuals, regulatory authorities and others of security breaches involving certain types of data. Such laws may be inconsistent or may change or additional laws may be adopted. In addition, our agreements with certain customers may require us to notify them in the event of a security breach or incident. Such mandatory disclosures are costly and could lead to negative publicity, penalties, fines, litigation and other proceedings or cause our customers to lose confidence in the effectiveness of our security measures and require us to expend significant capital and other resources to respond to and/or alleviate problems caused by the actual or perceived security breach or incident.

The global data protection landscape is rapidly evolving, and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future. We may not be able to monitor and react to all developments in a timely manner. For example, California adopted the California Consumer Privacy Act (“CCPA”), which became effective in January 2020. The CCPA establishes a privacy framework for covered businesses, including an expansive definition of personal information and data privacy rights for

California residents. The CCPA includes a framework with potentially severe statutory damages and private rights of action. Additionally, a new privacy law, the California Privacy Rights Act ("CPRA"), was approved by California voters on November 3, 2020. The CPRA created obligations relating to consumer data beginning on January 1, 2022, and the CPRA went into effect on January 1, 2023. The CPRA significantly modifies the CCPA, potentially resulting in further uncertainty. Numerous other states have proposed, and in many cases have enacted, laws addressing data privacy and security. For example, Virginia, Colorado, Connecticut, Utah, Iowa, Indiana, Texas, Montana, Oregon, Florida, and Tennessee have enacted laws similar to the CCPA and CPRA that have taken or will take effect between 2023 and 2026. The U.S. federal government also is contemplating federal privacy legislation. As we expand our operations, the CCPA, CPRA, and other laws and regulations relating to privacy and data security may increase our compliance costs and potential liability. Compliance with any applicable privacy and data security laws and regulations is a rigorous and time-intensive process, and we may be required to put in place additional mechanisms to comply with such laws and regulations.

Additionally, as our international presence expands, we may become subject to or face increasing obligations under laws and regulations in countries outside the United States, many of which, such as the European Union's General Data Protection Regulation ("GDPR") and national laws supplementing the GDPR, as well as legislation substantially implementing the GDPR in the United Kingdom, are significantly more stringent than those currently enforced in the United States. The GDPR requires companies to meet stringent requirements regarding the handling of personal data of individuals located in the European Economic Area. The GDPR also includes significant penalties for noncompliance, which may result in monetary penalties of up to the higher of €20 million or 4% of a group's worldwide turnover for the preceding financial year for the most serious violations. The United Kingdom's version of the GDPR, which it maintains along with its Data Protection Act, also provides for substantial penalties that, for the most serious violations, can go up to the greater of £17.5 million or 4% of a group's worldwide turnover for the preceding financial year. Many other jurisdictions globally are considering or have enacted legislation providing for local storage of data or otherwise imposing privacy, data protection and data security obligations in connection with the collection, use and other processing of personal data. As a general matter, compliance with laws, regulations, contractual obligations, industry standards, and any rules or guidance from self-regulatory organizations relating to privacy, data protection, and data security that apply, or are asserted to apply, to our operations may result in substantial costs and may necessitate changes to our business practices, which may compromise our growth strategy, adversely affect our ability to acquire customers, and otherwise adversely affect our business, prospects, results of operations, and financial condition.

We publish privacy policies and other documentation regarding our collection, processing, use and disclosure of personal information and/or other confidential information. Although we endeavor to comply with our published policies and other documentation, we may at times fail to do so or may be perceived to have failed to comply with such policies and other actual or asserted legal or contractual obligations relating to privacy, data protection or data security. Moreover, despite our efforts, we may not be successful in achieving compliance, including if our employees, contractors, service providers or vendors fail to comply with our published policies and documentation. Such failures can subject us to potential action by governmental or regulatory authorities if they are found to be deceptive, unfair, or misrepresentative of our actual practices. Any actual or perceived inability to adequately address privacy and security concerns or comply with applicable laws, rules and regulations relating to privacy, data protection or data security, or applicable privacy notices, could lead to investigations, claims and proceedings by governmental entities and private parties, damages for contract breach and other significant costs, penalties or liabilities. Any such claims or other proceedings could be expensive and time-consuming to defend and could result in adverse publicity. Any of the foregoing may have an adverse effect on our business, prospects, results of operations, and financial condition.

Issues in the development and use of artificial intelligence, combined with an uncertain regulatory environment, may result in reputational harm, liability or other adverse consequences to our business operations.

We are implementing machine learning and artificial intelligence technologies in our products, and we are making investments in expanding the artificial intelligence capabilities of our products. AI technologies are complex and rapidly evolving, and we face significant competition from other companies as well as an evolving regulatory landscape. The introduction of AI technologies into new or existing products may result in new or enhanced governmental or regulatory scrutiny, litigation, confidentiality or security risks, ethical concerns or other complications that could adversely affect our business, reputation or financial results or limit the functionality of our products or our ability to sell our products. The intellectual property ownership and license rights, including copyright, surrounding AI technologies has not been fully addressed by U.S. courts or other federal or state laws or regulations, and the use or adoption of third-party AI technologies into our products and services may result in exposure to claims of copyright infringement or other intellectual property misappropriation or infringement.

Uncertainty around new and emerging AI technologies, may require additional investment in the development and maintenance of proprietary datasets and machine learning models, development of new approaches and processes to provide attribution or remuneration to creators of training data, and development of appropriate protections and safeguards for handling the use of data with AI technologies, which may be costly and could impact our expenses if we decide to expand AI within product offerings. AI technologies may create content that appears correct but is factually inaccurate or flawed. Our customers or others may rely on or use this flawed content to their detriment, which may expose us to brand or reputational harm, competitive harm and/or legal liability. The use of AI technologies presents emerging ethical and social issues, and if we enable or offer solutions that draw scrutiny or controversy due to their perceived or actual impact on customers or on society as a whole, we may experience brand or reputational harm, competitive harm and/or legal liability.

We are subject to cybersecurity risks to our operational systems, security systems, infrastructure, integrated software in our products and data processed by us or third-party vendors.

Our business and operations involve the collection, storage, processing and transmission of personal data and certain other sensitive and proprietary data of collaborators, customers and others. Additionally, we maintain sensitive and proprietary information relating to our business, such as our own proprietary information and personal data relating to our employees. An increasing number of organizations have disclosed breaches of their information security systems and other information security incidents, some of which have involved sophisticated and highly targeted attacks. We have been and may in the future be a target for cybersecurity attacks designed to disrupt our operations or to attempt to gain access to our systems, data processed or maintained in our business, trade secrets or other proprietary information or financial resources. Many of our employees work remotely which has increased security risks. In addition, the risk of state-supported and geopolitical-related cybersecurity attacks is believed to be heightened in connection with the war in Ukraine and any related political or economic responses and counter-responses. Further, attackers have used artificial intelligence and machine learning to launch more automated, targeted and coordinated attacks against their targets.

We are at risk for interruptions, outages and breaches of our: (a) operational systems, including business, financial, accounting, product development, data processing or production processes, owned by us or our third-party vendors or suppliers; (b) facility security systems, owned by us or our third-party vendors or suppliers; (c) transmission control modules or other in-product technology, owned by us or our third-party vendors or suppliers; (d) the integrated software in our systems; and (e) customer data that we process or our third-party vendors or suppliers process on our behalf. Because techniques used to obtain unauthorized access to or to sabotage information systems change frequently and may not be known until launched against a target, we may be unable to anticipate or prevent these attacks, react in a timely manner or implement adequate preventive measures, and we may face delays in our detection or remediation of, or other responses to, security breaches and other privacy-and security-related incidents. Such incidents could: materially disrupt our operational systems; result in loss of intellectual property, trade secrets or other proprietary or competitively sensitive information; compromise certain information of customers, employees, suppliers or others; jeopardize the security of our facilities; or affect the performance of in-product technology and the integrated software in our systems. Certain efforts may be state-sponsored or supported by significant financial and technological resources, making them even more difficult to detect, remediate and otherwise respond to.

We plan to include product services and functionality that utilize data connectivity to monitor performance and timely capture opportunities to enhance performance and for safety and cost-saving preventative maintenance. The availability and effectiveness of our services depend on the continued operation of information technology and communications systems. Our systems will be vulnerable to damage or interruption from, among others, physical theft, fire, terrorist attacks, natural disasters, power loss, war, telecommunications failures, viruses, denial or degradation of service attacks, ransomware and other malicious code, social engineering schemes, insider theft or misuse or other attempts to harm our systems. We intend to use our product services and functionality to log information about each system’s use in order to aid us in diagnostics and servicing. Our customers may object to the use of this data, which may require us to implement new or modified data handling policies and mechanisms, increase our system maintenance costs and costs associated with data processing and handling, and harm our business prospects.

Although we have implemented and are in the process of implementing additional systems and processes that are designed to protect our data and systems within our control, prevent data loss and prevent other security breaches and security incidents, these security measures cannot guarantee security. The IT and infrastructure used in our business may be vulnerable to cyberattacks or security breaches or incidents, and third parties may be able to access data, including personal data and other sensitive and proprietary data of ours and our customers, collaborators and partners, our employees’ personal data or other sensitive and proprietary data accessible through those systems, or such data otherwise may be subject to unauthorized use, disclosure, unavailability, modification or other processing. Employee error, malfeasance or other errors in the storage, use or transmission of any of these types of data could result in an actual or perceived privacy or security breach or other security incident.

Moreover, there are inherent risks associated with developing, improving, expanding and updating our current systems, such as the disruption of our data management, procurement, production execution, finance, supply chain and sales and service processes. These risks may affect our ability to manage our data and inventory, procure parts or supplies or manufacture, deploy, deliver and service our systems and solutions, adequately protect our intellectual property or achieve and maintain compliance with, or realize available benefits under, applicable laws, regulations and contracts. We cannot be sure that these systems upon which we rely, including those of our third-party vendors or suppliers, will be effectively implemented, maintained or expanded as planned. If we do not successfully implement, maintain or expand these systems as planned, our operations may be disrupted, our ability to accurately and timely report our financial results could be impaired and deficiencies may arise in our internal control over financial reporting, which may impact our ability to certify our financial results. Moreover, our proprietary information or intellectual property could be compromised or misappropriated and our reputation may be adversely affected. If these systems do not operate as we expect them to, we may be required to expend significant resources to make corrections or find alternative sources for performing these functions.

Any actual or perceived security breach or security incident, or any systems outages or other disruption to systems used in our business, could interrupt our operations, result in loss or improper access to, or acquisition, unavailability, modification, disclosure or other processing of, data or a loss of intellectual property protection, harm our reputation and competitive position, reduce demand for our products, damage our relationships with customers, partners, collaborators or others or result in claims, regulatory investigations and proceedings and significant legal, regulatory and financial exposure, and any such incidents or any perception that our security measures are inadequate could lead to loss of confidence in us and harm to our reputation, any of which could adversely affect our business, financial condition and results of operations. Any actual or perceived breach of privacy or security, or other security incident, impacting any entities with which we share or disclose data (including, for example, our third-party technology providers) could have similar effects. We expect to incur significant costs in an effort to detect and prevent privacy and security breaches and other privacy- and security-related incidents, and may face increased costs and requirements to expend substantial resources in the event of an actual or perceived privacy or security breach or other incident.

We are subject to laws, regulations and contractual provisions as a government contractor or subcontractor, which may pose increased risk of potential liability and expenses related thereto, which could have a material adverse effect on our business, operating results and financial condition.

As a government contractor or subcontractor, we must comply with laws, regulations and contractual provisions relating to the formation, administration and performance of government contracts and inclusion on government contract vehicles, which affect how we and our partners do business with government agencies. U.S. governmental agencies, such as the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit and investigate government contractors. In addition, as a result of actual or perceived noncompliance with government contracting laws, regulations or contractual provisions, we may be subject to non-ordinary course audits and internal investigations which may prove costly to our business financially, divert management time or limit our ability to continue selling our products to our government customers. These laws and regulations may impose other added costs on our business, and failure to comply with these or other applicable regulations and requirements, including non-compliance in the past, could lead to claims for damages, downward contract price adjustments or refund obligations, civil or criminal penalties, termination of contracts and suspension or debarment from government contracting for a period of time with government agencies. Any such damages, penalties, disruption or limitation in our ability to do business with a government would adversely impact, and could have a material adverse effect on, our business, prospects, financial condition and operating results.

We are subject to U.S. and foreign anti-corruption and anti-money laundering laws and regulations. We can face criminal liability and other serious consequences for violations of these laws, which can harm our business, prospects, financial condition and operating results.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended (FCPA), the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, and other anti-corruption, anti-bribery and anti-money laundering laws, including those of other countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees, business partners, third-party intermediaries, representatives and agents from authorizing, promising, offering or providing, directly or indirectly, improper payments or anything else of value to government officials, political candidates, political parties or commercial partners for the purpose of obtaining or retaining business or securing an improper business advantage.

We have direct and indirect interactions with foreign officials, including in furtherance of sales to governmental entities in non-U.S. countries. We sometimes leverage third parties to conduct our business abroad, and our third-party business partners, intermediaries, representatives and agents may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of our employees or these third-parties, even if we do not explicitly authorize or have actual knowledge of such activities. The FCPA and other applicable laws and regulations also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, our employees, business partners, third-party intermediaries, representatives and agents may take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Our exposure for violating these laws increases as our international presence expands and as we increase sales and operations in foreign jurisdictions.

Any allegations or violations of the laws and regulations described above may result in whistleblower complaints, adverse media coverage, investigations, substantial civil and criminal fines and penalties, damages, settlements, prosecution, enforcement actions, imprisonment, the loss of export or import privileges, suspension or debarment from government contracts, tax reassessments, breach of contract and fraud litigation, reputational harm and other consequences, any of which could adversely affect our business, prospects, financial condition and operating results. In addition, responding to any investigation or action will likely result in a significant diversion of management’s attention and resources and significant defense costs and other professional fees.

We are subject to governmental export and import controls and laws that could subject us to liability if we are not in compliance with such laws.

Our products and technology are subject to compliance with any applicable export control, import and economic sanctions laws and regulations, including the U.S. Export Administration Regulations, U.S. International Traffic in Arms Regulations, U.S. Customs regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control. Exports of our robotic systems and solutions, software and technology must be made in compliance with these laws and regulations. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; debarment from U.S. government contracting; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers.

Moreover, international sales of certain of our products may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. If we are not allowed to export our products or the clearance process is burdensome and costly, our ability to generate revenue would be adversely affected.

In addition, changes to our products, or changes in applicable export control, import or economic sanctions laws and regulations may create delays in the introduction and sale of our products, constrain collaboration with suppliers or other business partners or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Compliance with such laws and regulations may also be costly and require time and attention from our management. Any change in export, import or economic sanctions laws and regulations, shift in the enforcement or scope of existing laws and regulations or change in the countries, governments, persons or technologies targeted by such laws and regulations could also result in decreased use of our robotic systems and solutions, as well as our decreased ability to export or market our robotic systems and solutions to potential customers. Any decreased use of products or limitation on our ability to export or market our products would likely adversely affect our business, prospects, financial condition and operating results.

Environmental costs and regulation, including in relation to climate change, could adversely affect our future earnings as well as the affordability of our products and services.

We are subject to federal, state, local and foreign requirements for the protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. We may become subject to various lawsuits, proceedings and remediation obligations. These types of matters could result in fines, penalties, cost reimbursements or contributions, compensatory or treble damages or non-monetary sanctions or relief. These costs may increase significantly because of future acquisitions, the regulation of new substances, stricter remediation standards for existing regulated substances, changes in the interpretation or enforcement of existing laws and regulations or the discovery of previously unknown or more extensive contamination or new contaminants, which could adversely affect our business, results of operations or financial results.

In addition, future regulations in response to global climate change may affect us, our suppliers, and our customers. Such regulations could cause us to incur additional direct costs for compliance, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that are passed on to us. Future environmental regulations could result in decreased demand for our products. If we fail to comply with current and future regulations, or are required to perform site remediation, we could be subject to future liabilities or cost, including penalties or the suspension of production. Current and future regulations may also:

- restrict our ability to expand facilities;
- restrict our ability to ship certain products;
- require us to modify our operations logistics;
- require us to acquire costly equipment; or
- require us to incur other significant costs and expenses.

In addition to incurring direct costs to implement any climate-change related laws, regulations or policies, we may see indirect costs rise, such as increased energy or material costs, as a result of policies affecting other sectors of the economy. Although most of these increased costs likely would be recoverable through pricing, to the extent that the increase in our costs as a result of these policies are greater than our competitors we may be less competitive on future bids or the total increased cost in our products and services could result in lower demand from our customers. We cannot accurately predict the materiality of any potential costs associated with such developments. In addition, climate change-related litigation and investigations have increased in recent years and any claims or investigations against us could be costly to defend and our business could be adversely affected by the outcome.

Risks Related to Our Intellectual Property

Our success depends in part on our ability to obtain and maintain protection for the intellectual property relating to or incorporated into our products.

Our success depends in part on our ability to obtain and maintain protection for the intellectual property relating to or incorporated into our products. We seek to protect our intellectual property through a combination of patents, trademarks and other intellectual property rights, as well as confidentiality and/or intellectual property assignment agreements with our employees and certain of our contractors, consultants, third-party manufacturers, scientific advisors and other vendors and third-parties. In addition, we rely on trade secret law to protect our proprietary software and product candidates/products in development.

Patent positions covering robotic systems and solutions can be highly uncertain and involve many new and evolving complex legal, factual and technical issues. Patent laws and interpretations of those laws are subject to change and any such changes may diminish the value of our patents or narrow the scope of our right to exclude others. In addition, we may fail to apply for or be unable to obtain patents necessary to protect our technology or products from competition or fail to enforce our patents due to lack of information about the exact use of technology or processes by third parties or for a variety of other reasons. Also, we cannot be sure that any patents will be granted in a timely manner or at all with respect to any of our pending patent applications or that any patents that are granted will be adequate to exclude others for any significant period of time or at all. Given the foregoing, and in order to continue reducing operational expenses in the future, we may invest fewer resources in filing and prosecuting new patents and on maintaining and enforcing various patents, especially in regions where we currently do not focus our market growth strategy.

Litigation to establish or challenge the validity of patents, or to defend against or assert against others' infringement, unauthorized use, enforceability or invalidity, can be lengthy and expensive and may result in our patents being invalidated or interpreted narrowly and may restrict our ability to be granted new patents related to our pending patent applications. Even if we prevail, litigation may be time consuming, force us to incur significant costs and divert management's attention from managing our business while any damages or other remedies awarded to us may not be valuable or adequate. In addition, U.S. patents and patent applications may be subject to interference or derivation proceedings, and U.S. patents may be subject to re-examination and inter partes or post grant review proceedings in the U.S. Patent and Trademark Office. Furthermore, our issued patents may be subject to claims of invalidity based on earlier filed patents or published applications not discovered in any patent searches or by the patent offices that carried out examination of the issued patents. Foreign patents may also be subject to opposition or comparable proceedings in corresponding foreign patent offices. Any of these proceedings may be expensive and could result in the loss of a patent or denial of a patent application, or the loss or reduction in the scope of one or more of the claims of a patent or patent application.

In addition, we seek to protect our trade secrets, know-how, and confidential information that is not patentable or for which we decide not to seek a patent by entering into confidentiality and intellectual property assignment agreements with our employees and certain of our contractors and confidentiality agreements with certain of our consultants, scientific advisors and other vendors and contractors. However, we may fail to enter into the necessary agreements, and even if entered into, these agreements may be breached or otherwise fail to prevent disclosure, third-party infringement or misappropriation of our 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. Enforcing a claim that a third party illegally obtained or is using our trade secrets without authorization may be expensive and time consuming, and the outcome is unpredictable. Some of our employees or consultants or service providers may own certain technology which they license to us for a set term. If these technologies are material to our business after the term of the license, our inability to use them could adversely affect our business and profitability.

We also have taken and continue to take precautions to initiate safeguards to protect our information technology systems. However, these measures may not be adequate to safeguard our proprietary information, which could lead to the loss or impairment thereof or to expensive litigation to defend our rights against competitors who may be better funded and have superior resources. In addition, unauthorized parties may attempt to copy or reverse engineer certain aspects of our products that we consider proprietary or our proprietary information may otherwise become known or may be independently developed by our competitors or other third parties. If other parties are able to use our proprietary technology or information, our ability to compete in the market could be harmed. Further, unauthorized use of our intellectual property may have occurred, or may occur in the future, without our knowledge.

We also have made efforts to register and enforce our trademark rights and copyrights. However, trademark law and the associated infringement analysis is complex, and, notwithstanding our efforts to develop and enforce our trademark portfolio, both outgoing and incoming claims of trademark infringement could lead to limitations, loss or impairment of those trademark rights or to expensive litigation to prosecute or defend our trademark rights against third-party infringers who may be better funded and have superior resources. Copyrights, in particular in the software space, are also complex and may be difficult to enforce.

If we are unable to obtain or maintain adequate protection for our intellectual property, or if any protection is reduced or eliminated, competitors may be able to use our technologies, resulting in harm to our competitive position and our business.

We may not be able to protect our intellectual property rights in all countries.

Filing, prosecuting, maintaining and defending patents and trademarks and seeking to enforce copyrights on our products and intellectual property in all countries throughout the world would be prohibitively expensive and time consuming, and thus our intellectual property rights outside the United States are limited. In addition, the laws of some foreign countries, especially developing countries, such as China, do not protect intellectual property rights to the same extent as federal and state laws in the United States. Also, it may not be possible to effectively enforce intellectual property rights in some countries at all or to the same extent as in the United States and other countries. Consequently, we are unable to prevent third parties from using our inventions in all countries, or from selling or importing products made using our inventions in the jurisdictions in which we do not have (or are unable to effectively enforce) patent protection. Competitors may use our technologies in jurisdictions where they have not obtained patent protection to develop, market or otherwise commercialize their own products, and we may be unable to prevent those competitors from importing those infringing products into territories where we have patent protection, but enforcement may not be as strong as in the United States. These products may compete with our products and our patents and other intellectual property rights may not be effective or sufficient to prevent them from competing in those jurisdictions. Moreover, strategic partners, competitors or others may raise legal challenges against our intellectual property rights or may infringe upon our intellectual property rights, including through means that may be difficult to detect or prevent.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. Proceedings to enforce our patent rights in the United States or foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert patent infringement or other claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights in the United States and around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license from third parties.

We may be subject to intellectual property infringement claims or misappropriation claims, which may be time consuming and expensive and, if adversely determined, could limit our ability to commercialize our products.

Companies operating in the robotics industry may face difficulty enforcing their patent and other intellectual property rights and may become subject to a substantial amount of litigation over these rights. In particular, our competitors in both the United States and abroad, many of which have substantially greater resources than we have and have made substantial investments in competing technologies, have been issued patents and filed patent applications with respect to their products and processes and may apply for other patents in the future. The large number of patents, the rapid rate of new patent issuances and the complexities of the technology involved increase the risk of patent litigation.

Determining whether a product infringes a patent involves complex legal and factual issues and the outcome of patent litigation is often uncertain. No assurance can be given that patents containing claims covering our products, technology or methods do not exist, have not been filed or could not be filed or issued. In addition, because patent applications can take years to issue and because publication schedules for pending applications vary by jurisdiction, there may be applications now pending of which we are unaware and which may result in issued patents that our current or future products infringe. Also, because the claims of published patent applications can change between publication and patent grant, published applications that initially do not appear to be problematic may issue with claims that potentially cover our products, technology or methods. Moreover, there may be pending, published or allowed applications that may disclose, but not claim, subject matter covering our products, technology or methods, where such pending or published applications may be amended, or one or more continuation or divisional applications may be filed, in an attempt to capture, to the extent possible, such products, technology or methods that are in the public domain, and which may result in issued patents that our current or future products infringe.

Infringement actions and other intellectual property claims brought against us, whether with or without merit, may cause us to incur substantial costs and could place a significant strain on our financial resources, divert the attention of management, and harm our reputation. We cannot be certain that we will successfully defend against any allegations of infringement. If we are found to infringe another party’s patents, we could be required to pay damages. We could also be prevented from selling our infringing products, unless we can obtain a license to use the technology covered by such patents or can redesign our products so that they do not infringe. A license may not be available on commercially reasonable terms or at all, and we may not be able to redesign our products to avoid infringement. In these circumstances, we may not be able to sell our products at competitive prices or at all, and our business, prospects, financial condition and operating results could be harmed.

Intellectual property discovered through government funded programs may be subject to federal regulations such as "march-in" rights, certain reporting requirements and a preference for U.S.-based companies. Compliance with such regulations may limit our exclusive rights and limit our ability to contract with non-U.S. manufacturers.

We may develop, acquire, or license intellectual property rights that have been generated through the use of U.S. government funding or grants. Pursuant to the Bayh-Dole Act of 1980, the U.S. government has certain rights in inventions developed with government funding. These U.S. government rights may include a non-exclusive, non-transferable, irrevocable worldwide license to use inventions for any governmental purpose. In addition, the U.S. government may have the right, under certain limited circumstances, to require us to grant exclusive, partially exclusive, or non-exclusive licenses to any of these inventions to a third party if the U.S. government determines that: (1) adequate steps have not been taken to commercialize the invention; (2) government action is necessary to meet public health or safety needs; or (3) government action is necessary to meet requirements for public use under federal regulations (also referred to as "march-in rights"). Such "march-in" rights would apply to new subject matter arising from the use of such government funding or grants and would not extend to pre-existing subject matter or subject matter arising from funds unrelated to the government funding or grants. If the U.S. government exercised its march-in rights in our future intellectual property rights that are generated through the use of U.S. government funding or grants, we could be forced to license or sublicense intellectual property we developed or that we license on terms unfavorable to us, and there can be no assurance that we would receive compensation from the U.S. government for the exercise of such rights. The U.S. government may also have the right to take title to these inventions if the grant recipient fails to disclose the invention to the government or fails to file an application to register the intellectual property within specified time limits. Intellectual property generated under a government funded program is also subject to certain reporting requirements, compliance with which may require us to expend substantial resources. In addition, the U.S. government requires that any products embodying any of these inventions or produced through the use of any of these inventions be manufactured substantially in the United States. This preference for U.S. industry may be waived by the federal agency that provided the funding if the owner or assignee of the intellectual property can show that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible. This preference for U.S. industry may limit our ability to contract with non-U.S. product manufacturers for products covered by such intellectual property.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our employees' former employers.

We may be subject to claims that we or our employees have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of an employee's former employers. Litigation may be necessary to defend against these claims. If we fail to defend against such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or be forced to seek a license, which may not be available on commercially acceptable terms or at all. A loss of key personnel or their work product could hamper or prevent our ability to commercialize our products, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and demand on management resources.

Risks Related to Ownership of our Securities

Resales of the shares of Common Stock issued in connection with the Business Combination and our acquisition of RE2 could depress the market price of our Common Stock.

Sales of a substantial number of shares of our Common Stock or Warrants could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our Common Stock or Warrants.

Common Stock issued to the former securityholders of Old Sarcos ("Old Sarcos Security Holders") represented approximately 71.1% of our Common Stock outstanding as of June 30, 2023, a portion of which remains subject to lock-up obligations under our Bylaws and under lock-up agreements entered into with us (the "Old Sarcos Lock-up Agreements").

In connection with the entry by us into the RE2 Lock-up Agreements (as described below), a special committee of our board of directors, consisting solely of independent directors who did not hold, and whose affiliates did not hold, shares of capital stock of Sarcos subject to the applicable terms of the Old Sarcos Lock-up Agreements, recommended to the board of directors that the release provisions in the Old Sarcos Lock-up Agreements be reconciled to the release provisions in the RE2 Lock-up Agreements. On April 25, 2022, the board of directors approved an amendment to the Bylaws and to the Old Sarcos Lock-up Agreements to conform the release provisions to the RE2 Lock-up Agreements.

Following the amendment described above, Common Stock issued from the exchange or conversion of Old Sarcos common stock, options, RSAs or RSUs is currently subject to the following remaining lock-up periods under the Bylaws and the Old Sarcos Lock-up Agreements:

1. twenty percent (20%) of the Common Stock became transferable at the close of business on March 23, 2022; and
2. the remaining eighty percent (80%) of the Common Stock may only be transferred beginning upon the earlier to occur of (a) such time as we or any of our subsidiaries have delivered to one or more customers at least 20 Guardian XO and/or Guardian XT and/or Sapien (Sapien products were acquired in the RE2 acquisition and have generally been rebranded as Guardian products) commercial systems, but in no event prior to the close of business on September 24, 2022 and (b) the close of business on September 24, 2023.

As of September 24, 2022, the lock-up periods under the Old Sarcos Lock-up Agreements and the Bylaws applicable to Common Stock issued from the exchange or conversion of shares of Old Sarcos preferred stock or warrants have fully expired.

The Common Stock issued upon conversion of the shares of Rotor Class B Common Stock held by certain stockholders, including the Sponsor (the "Founder Shares"), represented approximately 4.1% of our Common Stock outstanding as of June 30, 2023. The applicable lock-up periods for the Common Stock held by the Rotor Restricted Stockholders have expired and such Common Stock is freely tradable.

On April 25, 2022, we issued 1.8 million shares of our Common Stock (the "Consideration Shares"), which represented approximately 6.9% of our Common Stock outstanding as of June 30, 2023, and assumed certain outstanding options to acquire RE2 common stock which, following such assumption, represent rights to acquire 0.6 million shares of our Common Stock (the "Assumed Options" and together with the Consideration Shares, the "RE2 Lock-up Shares") in connection with our acquisition of RE2. RE2 securityholders who were RE2 employees and became our employees on such date received in the aggregate 1.2 million Consideration Shares, in addition to the Assumed Options, and entered into lock-up agreements (the "RE2 Lock-up Agreements"), pursuant to which, among other things, they agreed to the following transfer restrictions:

1. with respect to twenty percent (20%) of such holder's RE2 Lock-up Shares, such shares became transferable on the trading day following May 23, 2022, the date on which the registration statement on Form S-1 for the resale of Consideration Shares was declared effective by the Securities and Exchange Commission; and
2. with respect to the remaining eighty percent (80%) of such holder's RE2 Lock-up Shares, such shares may be transferred beginning upon the earlier to occur of (a) such time as we or any of our subsidiaries have delivered to one or more customers at least twenty (20) Guardian XO and/or Guardian XT and/or Sapien commercial units (but in no event prior to the close of business on September 24, 2022) and (b) the close of business on September 24, 2023.

Shares originally issued to PIPE Investors (as defined in Note 1 to our condensed consolidated financial statements included in this Report) represented approximately 14.2% of our Common Stock outstanding as of June 30, 2023. These shares are not subject to any lock-up or transfer restrictions.

The price of our Common Stock could decline due to the large number of shares of our Common Stock subject to employee equity awards.

We have granted and expect to continue to grant equity awards to our directors and employees as additional compensation in an effort to align their interests with those of our stockholders. Because awards granted to certain executive officers and directors may be scheduled to vest during specified points in time, such as expected open trading windows under our insider trading policy, there is a potential that sales of large amounts of our Common Stock may take place during concentrated periods, leading to a decline in the price of our Common Stock.

"Sell-to-cover" transactions can be used in connection with the vesting and settlement of equity awards that are granted to our employees so that shares of our Common Stock are sold on behalf of our employees in an amount sufficient to cover the tax withholding obligations and, if applicable, exercise price associated with these awards. As a result of these transactions, a significant number of shares of our Common Stock may be sold over a limited time period in connection with significant vesting events. We may also settle tax withholding obligations in connection with vesting of awards through "net settlement," in which we remit cash to satisfy the tax withholding obligation and withhold a number of the vested shares on each vesting date. Depending on the fair value of our Common Stock and the number of awards vesting on any applicable vesting date, such net settlement could require us to expend substantial funds to satisfy tax withholding.

The markets for our Common Stock and Warrants have been volatile and may not continue at all.

Since the Business Combination and the commencement of the trading of our Common Stock and Warrants on the Nasdaq Global Market, the prices of our Common Stock and Warrants have been volatile and may continue to fluctuate significantly due to various factors, some of which are beyond our control. Any of the factors listed below could have a material adverse effect on your investment in our securities and our securities may trade at prices significantly below the price you paid for them. In such circumstances, the trading price of our securities may not recover and may experience a further decline.

Factors affecting the trading price of our securities may include:

- actual or anticipated fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in the market's expectations about our operating results;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- speculation in the press or investment community;
- success of competitors;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in financial estimates and recommendations by securities analysts concerning our company or the market in general;
- operating and stock price performance of other companies that investors deem comparable to us;
- our ability to market, sell, manufacture and deliver our products on a timely basis;
- changes in laws and regulations affecting our business;
- commencement of, or involvement in, litigation;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- the volume of shares of the Common Stock and Public Warrants available for public sale, including as a result of the release of shares of our Common Stock from lock-up provisions (see "*Resales of the shares of Common Stock issued in connection with the Business Combination and our acquisition of RE2 could depress the market price of our Common Stock.*") or after exercise of any of our Warrants or the exercise or vesting of employee equity awards;
- any major change in our board of directors or management;
- sales of substantial amounts of Common Stock by our directors, officers or significant stockholders or the perception that such sales could occur;
- the realization of any of the risk factors discussed herein;
- additions or departures of key personnel;
- failure to comply with Nasdaq listing requirements;
- failure to comply with the Sarbanes-Oxley Act of 2002 or other laws or regulations;
- actual, potential or perceived control, accounting or reporting problems;
- changes in accounting principles, policies and guidelines; and
- general economic and political conditions such as recessions, interest rates, fuel prices, international currency fluctuations and acts of war or terrorism.

Broad market and industry factors may materially harm the market price of our securities irrespective of our operating performance or any of the factors listed above. The securities markets in general have experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of these securities, including our securities, are not predictable. A loss of investor confidence in the market for the stocks of other companies which investors perceive to be similar to us could depress our stock price regardless of our business, prospects, financial conditions or results of operations. A decline in the market price of our securities also could adversely affect our ability to issue additional securities and our ability to obtain additional financing in the future.

Additionally, an active trading market for our securities may not be sustained. If our Common Stock or Warrants become delisted from Nasdaq for any reason and are quoted on the OTC Bulletin Board or OTC Pink, an inter-dealer automated quotation system for equity securities that is not a national securities exchange, the liquidity of our Common Stock or Warrants may be more limited and the price of the securities may be lower than if we were quoted or listed on Nasdaq or another national securities exchange. If an active trading market for our securities is not sustained with sufficient trading volume, you may have limited or no ability to sell your securities.

In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

Our reverse stock split to regain compliance with the Nasdaq Global Market Minimum Bid Price Requirement may not result in a lasting proportional increase in the per share price of our common stock and may decrease the liquidity of our common stock.

Nasdaq Listing Rule 5450(a)(1) requires listed securities to maintain a minimum bid price of $1.00 per share (the "Minimum Bid Price Requirement"), and Nasdaq Listing Rule 5810(c)(3)(A) provides that a failure to meet the Minimum Bid Price Requirement exists if the deficiency continues for a period of 30 consecutive business days. On January 23, 2023, we received written notice from the Listing Qualifications Department of Nasdaq notifying us that, based on the closing bid price of our Common Stock for the previous 30 consecutive business days, we did not comply with the Minimum Bid Price Requirement for continued listing on The Nasdaq Global Market, and that we had until July 22, 2023 to regain such compliance. To do so, our Board of Directors and stockholders approved a 1-for-6 reverse stock split. Although we have regained compliance with the Nasdaq's listing standards, the long-term effect of the reverse stock split, if any, on the market price for our common stock cannot be accurately predicted. Since the effective date of the reverse stock split on July 5, 2023 the trading price of our common stock increased. However, it has generally traded below the proportionately-adjusted closing price on July 5, 2023. Because some investors may view a reverse stock split negatively, the decline may be the result, at least in part, of the reverse stock split. Further, the liquidity of the shares of our common stock may be affected adversely by the reverse stock split given the reduced number of shares that are outstanding following the reverse stock split.

If securities or industry analysts cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our Common Stock, then the price and trading volume of our Common Stock could decline*.*

The trading markets for our Common Stock and Warrants will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who cover us now or in the future change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, the price of our Common Stock and Public Warrants would likely decline. If any analyst covering our company now or in the future were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the prices and trading volumes of the Common Stock and Public Warrants to decline.

There is no guarantee that the Public Warrants or Private Placement Warrants will ever be in the money, and they may expire worthless.

The exercise price of our Warrants is higher than is typical with many companies that have merged with similar blank check companies in the past. Historically, with regard to units offered by blank check companies, the exercise price of a Warrant was generally a fraction of the purchase price of the units in the initial public offering. The exercise price for our Warrants is $69.00 per share of Common Stock. There is no guarantee that the Warrants will ever be in the money prior to their expiration, and as such, the Warrants may expire worthless.

We may redeem unexpired Warrants prior to their exercise at a time that is disadvantageous to Warrant holders, thereby making their Warrants worthless*.*

We have the ability to redeem outstanding Warrants at any time after they become exercisable and prior to their expiration, subject to certain exceptions, provided that the last reported sales price of our Common Stock equals or exceeds $60.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalization and the like) for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date on which we give proper notice of such redemption to the Warrant holders and provided certain other conditions are met. For additional information on the circumstances in which the Public Warrants may be redeemed, see "*Description of Securities—Warrants—Public Stockholders' Warrants*" in our prospectus filed with the SEC on April 6, 2022. If and when the Warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. Redemption of the outstanding Warrants could force the Warrant holders (i) to exercise their Warrants and pay the exercise price therefor at a time when it may be disadvantageous for them to do so, (ii) to sell their Warrants at the then-current market price when they might otherwise wish to hold their Warrants or (iii) to accept the nominal redemption price which, at the time the outstanding Warrants are called for redemption, is likely to be substantially less than the market value of their Warrants. None of the Private Placement Warrants will be redeemable by us so long as they are held by the initial purchasers or their permitted transferees, subject to certain exceptions.

***Warrants are exercisable for Common Stock, and their exercise would increase the number of shares eligible for future resale in the public market and result in dilution to our stockholders*.**

As of June 30, 2023, we had outstanding Public Warrants to purchase approximately 2,441,495 shares of Common Stock at $11.50 per warrant and Private Placement Warrants to purchase 983,413 shares at $11.50 per warrant. Upon exercise, the exercise price of the Public Warrants and Private Placement Warrants and the number of shares of Common Stock issuable shall be adjusted in the same ratio as the reverse stock split that was effective as of July 5, 2023, or 1-for-6. The shares of Common Stock issued upon exercise of our Warrants will result in dilution to the then existing holders of Common Stock and increase the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our Common Stock or Public Warrants.

The Private Placement Warrants are identical to the Public Warrants except that, so long as they are held by the initial purchasers or their permitted transferees, (i) they will not be redeemable by us subject to certain exceptions, (ii) they may be exercised by the holders on a cashless basis and (iii) they are subject to registration rights.

***Anti-takeover provisions contained in our Charter and Bylaws, as well as provisions of Delaware law, could impair a takeover attempt, which could limit the price investors might be willing to pay in the future for our Common Stock*.**

Our Charter and Bylaws contain provisions that may discourage unsolicited takeover proposals that stockholders may consider to be in their best interests. We are also subject to anti-takeover provisions under Delaware law, which could delay or prevent a change of control. Together, these provisions may make more difficult the removal of management and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our securities. These provisions include:

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- only the board of directors (pursuant to a majority vote of the whole board), the chairperson of the board of directors, or the Chief Executive Officer may call a special meeting;
- stockholder vote of at least 66-2/3% required to remove a director for “cause”;
- stockholder vote of at least 66-2/3% required to approve certain amendments to the Charter and Bylaws; and
- the designation of Delaware and federal courts as the exclusive forums for certain disputes.

Our Bylaws provide 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 our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or stockholders.

Our Bylaws provide, to the fullest extent permitted by law, that internal corporate claims may be brought only in the Court of Chancery in the State of Delaware (or, if the Court of Chancery does not have, or declines to accept, jurisdiction, another state court or a federal court located within the State of Delaware). In addition, our Bylaws provide that the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. This forum selection provision will not apply to claims brought to enforce a duty or liability created by the Exchange Act. Any person or entity purchasing or otherwise acquiring or holding any interest in our stock shall be deemed to have notice of and consented to the forum provision in our Bylaws.

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. Alternatively, if a court were to find the choice of forum provision contained in our Bylaws 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. For example, under the Securities Act, federal courts have concurrent jurisdiction over all suits brought to enforce any duty or liability created by the Securities Act, and investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such a forum selection provision as written in connection with claims arising under the Securities Act.

The JOBS Act permits "emerging growth companies" like us to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies.

We qualify as an "emerging growth company" as defined in Section 2(a)(19) of the Securities Act, as modified by the JOBS Act. As such, we take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies for as long as we continue to be an emerging growth company, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, (ii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iii) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. As a result, our stockholders may not have access to certain information they deem important. We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year (a) following January 20, 2026, the fifth anniversary of Rotor's initial public offering, (b) in which we have total annual gross revenue of at least $1.235 billion or (c) in which we are deemed to be a large accelerated filer, which means the market value of our Common Stock and Public Warrants that is held by non-affiliates exceeds $700 million as of the last business day of our prior second fiscal quarter, and (ii) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the exemption from complying with new or revised accounting standards provided in Section 7(a)(2)(B) of the Securities Act as long as we are an emerging growth company. An emerging growth company can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The JOBS Act provides that a 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 election to opt out is irrevocable. We have elected to avail ourselves 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, we, 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 our 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.

Investors may find our Common Stock or Public Warrants less attractive because we rely on these exemptions and may continue to rely on them to the extent they remain available to us. If some investors find our Common Stock or Public Warrants less attractive as a result of these exemptions and reduced disclosure as an emerging growth company, there may be a less active trading market for and/or more price volatility with respect to our Common Stock or Public Warrants.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

During our last fiscal quarter, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” each as defined in Regulation S-K Item 408.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of Sarcos Technology and Robotics Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 30, 2021).
3.2	Amended and Restated Bylaws of Sarcos Technology and Robotics Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 8, 2022).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Sarcos Technology and Robotics Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 20, 2023).
10.1	Separation Agreement, effective as of June 15, 2023, by and between Kiva Allgood, Sarcos Technology and Robotics Corporation and Sarcos Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 16, 2023).
10.2	Employment Agreement, entered into as of June 12, 2023, by and between Denis Garagić, Sarcos Technology and Robotics Corporation and Sarcos Corp. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 16, 2023).
10.3*	Amendment dated May 15, 2023 to the Employment Agreement by and between the Company and Kristi Martindale, effective as of September 24, 2021.
10.4*	Amended and Restated Sarcos Technology and Robotics Corporation Outside Director Compensation Policy.
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** The Certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Sarcos Technology and Robotics Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

SARCOS TECHNOLOGY AND ROBOTICS CORPORATION

Date: August 9, 2023	By: /s/ Laura J. Peterson **Laura J. Peterson** **Interim President and Chief Executive Officer (*Principal Executive Officer*)**
Date: August 9, 2023	By: /s/ Andrew Hamer **Andrew Hamer** **Chief Financial Officer (Principal Financial and Accounting Officer)**

Sarcos Technology and Robotics Corporation
650 S 500 W, Salt Lake City, UT 84101

Exhibit 10.3

To: Kristi Martindale
3224 Dove Hollow Road
Encinitas, CA 92024
May 15, 2023

Dear Kristi,

We write to amend the Employment Agreement entered into as of September 24, 2021 by and between Sarcos, Corp. and you (the "**Agreement**"), as follows:

The definition of "**Good Reason**" in Section 9(i) of the Agreement is hereby amended to replace the last sentence thereof with the following sentence:

"In order for the termination to be for Good Reason, Executive must not terminate Executive's employment with the Company without first providing written notice to the Company of the acts or omissions constituting the grounds for "Good Reason" within 120 days of the initial existence of the grounds for "Good Reason" and a cure period of 30 days following the date of written notice (the "**Cure Period**"), the grounds must not have been cured during that time, and Executive must terminate Executive's employment within 30 days following the Cure Period."

Please indicate your acknowledgement of and agreement to the amendment to the Agreement as set forth herein by signing in the space indicated below.

SARCOS CORP.

By: /s/ Stephen Sonne
Stephen Sonne, Chief Legal Officer
Sarcos Technology and Robotics Corp.

Acknowledged and agreed.

/s/ Kristi Martindale
Kristi Martindale

Date: May 15, 2023

Exhibit 31.1

SARCOS TECHNOLOGIES AND ROBOTICS CORPORATION

AMENDED AND RESTATED OUTSIDE DIRECTOR COMPENSATION POLICY

Adopted and approved by the Compensation Committee of the Company's Board of Directors on April 13, 2023 (the "Effective Date")

Sarcos Technologies and Robotics Corporation (the "Company") believes that providing cash and equity compensation to members of its Board of Directors (the "Board," and members of the Board, the "Directors") represents an effective tool to attract, retain and reward Directors who are not employees of the Company (the "Outside Directors"). This Outside Director Compensation Policy (the "Policy") is intended to formalize the Company's policy regarding the compensation to its Outside Directors. Unless defined in this Policy, capitalized terms used in this Policy will have the meaning given to such terms in the Company's 2021 Equity Incentive Plan (the "Plan"), or if the Plan is no longer in place, the meaning given to such terms or any similar terms in the equity plan then in place. Each Outside Director will be solely responsible for any tax obligations incurred by such Outside Director as a result of the equity and cash payments such Outside Director receives under this Policy. No compensation will be paid under this Policy if it exceeds any limits under the Plan.

1. Cash Compensation.

Annual Cash Retainer

Each Outside Director will be paid an annual cash retainer of $50,000. There are no per-meeting attendance fees for attending Board meetings.

Chair and Committee Annual Cash Retainer

Effective as of the Effective Date, each Outside Director who serves as the chair of the Board, or the chair or a member of a committee of the Board listed below will be eligible to earn additional annual cash retainers as follows:

Chair of the Board	$50,000
Chair of Audit Committee:	$15,000
Member of Audit Committee:	$7,500
Chair of Compensation Committee:	$7,500
Member of Compensation Committee:	$3,750
Chair of Nominating and Corporate Governance Committee:	$3,000
Member of Nominating and Corporate Governance Committee:	$1,500

For clarity, each Outside Director who serves as the chair of a committee will receive only the annual cash retainer as the chair of the committee, and not the additional annual cash retainer as a member of the committee.

Payment

Each annual cash retainer payable under this Policy for service on the Board, chair of the Board, or the chair or a member of a committee of the Board (an "Annual Cash Retainer") will be paid quarterly in arrears on a prorated basis to each Outside Director who has served in the relevant capacity at any point during the fiscal quarter, and such payment will be made on the last business day of such fiscal quarter (or as soon thereafter as practical, but in no event later than 30 days following the end of such fiscal quarter). For purposes of clarification, an Outside Director who has served as an Outside Director and/or as a member of an applicable committee (or chair thereof) during only a portion of the relevant Company fiscal quarter will receive a pro-rated payment of the quarterly payment of the applicable annual cash retainer(s), calculated based on the number of days during such fiscal quarter such Outside Director has served in the relevant capacities.

2. Equity Compensation.

Outside Directors will be eligible to receive all types of Awards (except Incentive Stock Options) under the Plan (or the applicable equity plan in place at the time of grant), including discretionary Awards not covered under this Policy. All grants of Awards to Outside Directors pursuant to Section 2 of this Policy will be automatic and nondiscretionary, except as otherwise provided herein, and will be made in accordance with the following provisions. No Awards will be made if they would exceed any limitations in the Plan.

(a) No Discretion. No person will have any discretion to select which Outside Directors will be granted any Awards under this Policy or to determine the number of Shares to be covered by such Awards. Notwithstanding the foregoing, any individual Outside Director may refuse to receive all or any part of an Award otherwise due to such Outside Director pursuant to this policy, and a majority of all Outside Directors may determine to reduce the amount (including in full) of any Annual Awards otherwise due to all Outside Directors on behalf of all Outside Directors.

(b) New Director Award. Subject to the following paragraph, upon an Outside Director's initial appointment to the Board (other than by appointment on an Annual Meeting), such Outside Director automatically will be granted an Award of Restricted Stock Units with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of $150,000 multiplied by a fraction (A) the numerator of which is (x) 12 minus (y) the number of months between the date of the last Annual Meeting and the date the Outside Director becomes a member of the Board and (B) the denominator of which is 12 (a "New Director Award").

Subject to Section 3, each New Director Award will fully vest upon the earlier of: (i) the first anniversary of the grant date and (ii) the day prior to date of the next Annual Meeting, in each case subject to the Outside Director continuing to be a Service Provider through the vesting date. For the avoidance of doubt, should the appointment date be the same as the date of an Annual Meeting, then such Outside Director will only be granted an Annual Award.

(c) Annual Award. Subject to the following paragraph, on the date of each Annual Meeting, each Outside Director will be automatically granted an Award of Restricted Stock Units (an "Annual Award") with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of $150,000, rounded to the nearest whole Share.

Subject to Section 3 of this Policy, each Annual Award will vest on the earlier of (i) the first anniversary of the date the Annual Award is granted and (ii) the day prior to the date of the Annual Meeting next following the date the Annual Award was granted, in each case, subject to the Outside Director continuing to be a Service Provider through the applicable vesting date.

(d) Chair Award. Subject to the following paragraph, on the date of each Annual Meeting, if an Outside Director is serving as Chair of the Board immediately following the Annual Meeting, the grant date fair value of such Outside Director's Annual Award shall be increased by $50,000. Subject to the following paragraph, if an Outside Director is elected or appointed to serve as the Chair of the Board not in connection with the Annual Meeting, then upon such initial election or appointment such Outside Director automatically will be granted an Award of Restricted Stock Units with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of $25,000 multiplied by a fraction (A) the numerator of which is (x) 12 minus (y) the number of months between the date of the last Annual Meeting and the date the Outside Director is so elected or appointed and (B) the denominator of which is 12.

Subject to Section 3, each Chair Award will fully vest upon the earlier of: (i) the first anniversary of the grant date and (ii) the day prior to the date of the next Annual Meeting, in each case subject to the Outside Director continuing to be a Service Provider through the vesting date.

(e) Additional Terms of New Director Awards, Annual Awards and Chair Awards. Each New Director Award, Annual Award and Chair Award will be granted under and subject to the terms and conditions of the Plan and the applicable form of Award Agreement previously approved by the Board or its Committee, as applicable, for use thereunder.

3. Change in Control.

Immediately prior to a Change in Control, each Outside Director will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares which would not be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met, unless specifically provided otherwise under the applicable Award Agreement or other written agreement between the Outside Director and the Company or any of its Subsidiaries or Parents, as applicable.

4. Travel Expenses.

Each Outside Director's reasonable, customary and documented travel expenses to Board or Board committee meetings or related to his or her Board service will be reimbursed by the Company.

5. Additional Provisions.

All provisions of the Plan not inconsistent with this Policy will apply to Awards granted to Outside Directors.

6. Section 409A.

In no event will cash compensation or expense reimbursement payments under this Policy be paid after the later of (i) 15^{th} day of the 3rd month following the end of the Fiscal Year in which the compensation is earned or expenses are incurred, as applicable, or (ii) 15^{th} day of the 3rd month following the end of the calendar year in which the compensation is earned or expenses are incurred, as applicable, in compliance with the "short-term deferral" exception under Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and guidance thereunder, as may be amended from time to time (together, "Section 409A"). It is the intent of this Policy that this Policy and all payments hereunder be exempt from or otherwise comply with the requirements of Section 409A so that none of the compensation to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to be so exempt or comply. In no event will the Company have any liability or obligation to reimburse, indemnify, or hold harmless an Outside Director (or any other person) for any taxes or costs that may be imposed on or incurred by an Outside Director (or any other person) as a result of Section 409A.

7. Revisions.

The Board or Compensation Committee of the Board may amend, alter, suspend or terminate this Policy at any time and for any reason. No amendment, alteration, suspension or termination of this Policy will materially impair the rights of an Outside Director with respect to compensation that already has been paid or awarded, unless otherwise mutually agreed between the Outside Director and the Company. Termination of this Policy will not affect the Board's or the Compensation Committee's ability to exercise the powers granted to it under the Plan with respect to Awards granted under the Plan pursuant to this Policy prior to the date of such termination.

Exhibit 31.1

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

I, Laura J. Peterson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sarcos Technology and Robotics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

By: /s/ Laura J. Peterson

Laura J. Peterson
Interim President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Andrew Hamer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sarcos Technology and Robotics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

By: /s/ Andrew Hamer
Andrew Hamer
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sarcos Technology and Robotics Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2023

By: /s/ Laura J. Peterson
Laura J. Peterson
Interim President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sarcos Technology and Robotics Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2023

By: /s/ Andrew Hamer
Andrew Hamer
Chief Financial Officer
(Principal Financial and Accounting Officer)