REFINITIV

DELTA REPORT

10-Q

SIDUS SPACE INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1072
CHANGES	5
DELETIONS	1059
ADDITIONS	8

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 September 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: 001-41154

SIDUS SPACE, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**46-0628183**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
150 N. Sykes Creek Parkway, Suite 200, Merritt Island, FL	**32953**
(Address of principal executive offices)	(Zip Code)

(321)450-5633

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0001 par value	SIDU	The Nasdaq Stock Market LLC

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

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

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

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

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

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

Number of Class A and B common shares outstanding as of November 14, 2023 was 77,867,915 and 10,000,000, respectively.

Number of Series A Convertible Preferred Stock shares outstanding as of November 14, 2023 was 1,812.

SIDUS SPACE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash	$ 1,597,331	$ 2,295,259
Accounts receivable	628,616	850,340
Accounts receivable - related parties	245,966	168,170
Inventory	1,310,693	583,437
Contract asset	77,124	60,932
Contract asset - related party	30,938	14,982
Prepaid and other current assets	5,972,020	3,476,748
Total current assets	9,862,688	7,449,868
Property and equipment, net	7,252,223	2,554,992
Operating lease right-of-use assets	183,800	249,937
Intangible asset	398,135	-
Other assets	59,418	42,778
Total Assets	$ 17,756,264	$ 10,297,575
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and other current liabilities	$ 5,962,192	$ 3,415,845
Accounts payable and accrued interest - related party	596,189	566,636
Contract liability	77,124	60,932
Contract liability - related party	30,938	14,982
Asset-based loan liability	500,187	502,349
Notes payable	1,916,278	1,599,150
Operating lease liability	189,718	199,158
Total current liabilities	9,272,626	6,359,052
Operating lease liability - non-current	-	63,310
Total Liabilities	9,272,626	6,422,362
Commitments and contingencies		
Stockholders' Equity		
Preferred Stock: 5,000,000 shares authorized; $0.0001 par value; no shares issued and outstanding	-	-
Common stock: 210,000,000 authorized; $0.0001 par value		
Class A common stock: 200,000,000 shares authorized; 70,965,559 and 8,022,736 shares issued and outstanding, respectively	7,096	802
Class B common stock: 10,000,000 shares authorized; 10,000,000 shares issued and outstanding	1,000	1,000
Additional paid-in capital	47,756,113	32,129,257

Accumulated deficit	(39,280,571)	(28,255,846)
Total Stockholders’ Equity	8,483,638	3,875,213
Total Liabilities and Stockholders’ Equity	$ 17,756,264	$ 10,297,575

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

SIDUS SPACE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenue	$ 762,231	$ 1,260,146	$ 3,852,571	$ 4,099,626
Revenue - related parties	223,289	57,101	766,985	864,319
Total - revenue	985,520	1,317,247	4,619,556	4,963,945
Cost of revenue	1,081,801	1,402,870	3,312,261	3,724,467
Gross profit (loss)	(96,281)	(85,623)	1,307,295	1,239,478
Operating expenses				
Selling, general and administrative expenses	3,778,460	3,789,795	10,881,111	9,778,757
Total operating expenses	3,778,460	3,789,795	10,881,111	9,778,757
Net loss from operations	(3,874,741)	(3,875,418)	(9,573,816)	(8,539,279)
Other income (expense)				
Other income	-	-	17,950	-
Interest expense	(186,282)	(50,880)	(561,476)	(175,208)
Asset-based loan expense	(21,062)	-	(100,629)	-
Finance expense	-	-	(806,754)	-
Total other income (expense)	(207,344)	(50,880)	(1,450,909)	(175,208)
Loss before income taxes	(4,082,085)	(3,926,298)	(11,024,725)	(8,714,487)
Provision for income taxes	-	-	-	-
Net loss	**$ (4,082,085)**	**$ (3,926,298)**	**$ (11,024,725)**	**$ (8,714,487)**
Basic and diluted loss per common share	$ (0.05)	$ (0.23)	$ (0.21)	$ (0.52)
Basic and diluted weighted average number of common shares outstanding	74,304,946	17,178,648	51,880,279	16,886,582

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

SIDUS SPACE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

For the Three and Nine Months Ended September 30, 2023

	Class A Common Stock		Class B Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance - December 31, 2022	8,022,736	$ 802	10,000,000	$ 1,000	$ 32,129,257	$ (28,255,846)	$ 3,875,213
Class A common stock units issued	17,250,000	1,725	-	-	4,613,740	-	4,615,465
Warrants issued for finance expense	-	-	-	-	566,229	-	566,229
Net loss	-	-	-	-	-	(3,441,059)	(3,441,059)
Balance - March 31, 2023	25,272,736	$ 2,527	10,000,000	$ 1,000	$ 37,309,226	$ (31,696,905)	$ 5,615,848
Class A common stock units issued	12,359,892	1,236	-	-	10,169,247	-	10,170,483
Class A common stock issued for exercise of warrants	22,162,426	2,216	-	-	(653)	-	1,563
Warrants issued for finance expense	-	-	-	-	240,525	-	240,525
Net loss	-	-	-	-	-	(3,501,581)	(3,501,581)
Balance - June 30, 2023	59,795,054	$ 5,979	10,000,000	$ 1,000	$ 47,718,345	$ (35,198,486)	$ 12,526,838
Class A common stock issued for exercise of warrants	11,170,505	1,117	-	-	(507)	-	610
Shares to be issued - Board Compensation	-	-	-	-	25,000	-	25,000
Stock option expense	-	-	-	-	13,275	-	13,275
Net loss	-	-	-	-	-	(4,082,085)	(4,082,085)

	Class A Common Stock Shares	Class A Amount	Class B Common Stock Shares	Class B Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance - September 30, 2023	70,965,559	$ 7,096	10,000,000	$ 1,000	$ 47,756,113	$ (39,280,571)	$ 8,483,638

For the Three and Nine Months Ended September 30, 2022

	Class A Common Stock		Class B Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance - December 31, 2021	6,574,040	$ 657	10,000,000	$ 1,000	$ 26,074,292	$ (15,415,878)	$ 10,660,071
Class A common stock issued for service	300,000	30	-	-	1,208,970	-	1,209,000
Net loss	-	-	-	-	-	(2,330,354)	(2,330,354)
Balance - March 31, 2022	6,874,040	$ 687	10,000,000	$ 1,000	$ 27,283,262	$ (17,746,232)	$ 9,538,717
Debt forgiveness related party	-	-	-	-	1,624,755	-	1,624,755
Net loss	-	-	-	-	-	(2,457,835)	(2,457,835)
Balance - June 30, 2022	6,874,040	$ 687	10,000,000	$ 1,000	$ 28,908,017	$ (20,204,067)	$ 8,705,637
Class A common stock issued for cash	1,062,234	107	-	-	3,060,702	-	3,060,809
Net loss	-	-	-	-	-	(3,926,298)	(3,926,298)
Balance - September 30, 2022	7,936,274	$ 794	10,000,000	$ 1,000	$ 31,968,719	$ (24,130,365)	$ 7,840,148

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

SIDUS SPACE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2023	**2022**
Cash Flows From Operating Activities:		
Net loss	$ (11,024,725)	$ (8,714,487)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	845,029	1,209,000
Depreciation and amortization	148,166	238,859
Bad debt	15,000	-
Changes in operating assets and liabilities:		
Accounts receivable	258,493	(787,318)
Accounts receivable - related party	(77,796)	437,471
Inventory	(717,645)	(269,633)
Contract asset	(16,192)	(60,932)
Contract asset - related party	(15,956)	-
Prepaid expenses and other assets	(2,511,912)	(1,585,247)
Accounts payable and accrued liabilities	3,087,470	(299,165)
Accounts payable and accrued liabilities - related party	29,553	10,939
Contract liability	16,192	(2,479)
Contract liability - related party	15,956	-
Changes in operating lease assets and liabilities	(6,613)	(4,756)
Net Cash (used in) Operating Activities	(9,954,980)	(9,827,748)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(4,836,249)	(1,425,623)
Cash paid for asset acquisition	(468,663)	-
Net Cash used in Investing Activities	(5,304,912)	(1,425,623)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock units	14,788,121	3,060,809
Proceeds from asset-based loan agreement	3,487,982	-
Repayment of asset-based loan agreement	(3,490,144)	-
Repayment of notes payable	(223,995)	(213,708)
Payment of lease liabilities	-	(148,019)
Repayment of notes payable - related party	-	(797,505)
Net Cash provided by Financing Activities	14,561,964	1,901,577
Net change in cash	(697,928)	(9,351,794)
Cash, beginning of period	2,295,259	13,710,845
Cash, end of period	$ 1,597,331	$ 4,359,051

Supplemental cash flow information

Cash paid for interest	$ 20,353	$ 19,951
Cash paid for taxes	$ -	$ -
Non-cash Investing and Financing transactions:		
Debt forgiveness	$ -	$ 1,624,755
Class A common stock issued for cashless exercise of warrants	$ 1,160	$ -
Modification of right-of-use asset and lease liability	$ 135,235	$ -

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

SIDUS SPACE, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2023

Note 1. Organization and Description of Business

Organization

Sidus Space Inc. ("Sidus", "we", "us" or the "Company"), was formed as Craig Technologies Aerospace Solutions, LLC, in the state of Florida, on July 17, 2012. On April 16, 2021, the Company filed a Certificate of Conversion to register and incorporate with the state of Delaware and on August 13, 2021 changed the company name to Sidus Space, Inc.

Description of Business

Founded in 2012, we are a growing U.S. commercial space company with an established manufacturing business who has been trusted to provide mission-critical space hardware to many of the top aerospace businesses for over a decade. We plan to offer on-orbit services as the space economy expands; said services are either in a developmental phase or soon to achieve flight heritage. We have strategically decided to expand our business by moving up the satellite value chain by becoming a provider of responsive and scalable on-orbit infrastructure as well as collecting Space and Earth observational data to capture larger market needs.

To address Commercial and Government customer needs and mission sets, we plan to organize into three core business lines: manufacturing services; space-infrastructure-as-a-service; and space-based data and insights. Our vertically integrated model is complementary across each line of business aiming to expand existing and unlock new potential revenue generating opportunities. Additionally, we look to further transition into a subscription-based model upon the digitization of our manufacturing process as we expand alongside our space-based focus.

Note 2. Summary of Signification Accounting Policies

Basis of Presentation

The Company prepares its financial statements in accordance with rules and regulations of the Securities and Exchange Commission ("SEC") and GAAP in the United States of America. The accompanying interim financial statements have been prepared in accordance with GAAP for interim financial information in accordance with Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the Company's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2023, are not necessarily indicative of the results for the full year. While management of the Company believes that the disclosures presented herein are adequate and not misleading, these interim financial statements should be read in conjunction with the audited financial statements and the footnotes thereto for the year ended December 31,2022, contained in the Company's Form 10-K filed on March 15,2023.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. For the three and nine months ended September 30, 2022, the Company has reclassified operating expenses to selling, general and administrative expenses.

Going Concern

For the nine months ended September 30, 2023, the Company had a net loss of $11.0 million. For the nine months ended September 30, 2023, the Company had negative cash flow from operating activities of $10.0 million. The Company plans to fund its cash flow needs through current cash on hand and future debt and/or equity financings which it may obtain through one or more public or private equity offerings, debt financings, government or other third-party funding, strategic alliances, or collaboration agreements. If the Company is unable to obtain funding, the Company could be forced to delay, reduce or eliminate its projects and services, which could adversely affect its future business prospects and its ability to continue as a going concern. While there are indicators of substantial doubt, the Company believes that its current available cash on hand plus additional sources of funding, including current customer contracts as well as the Company's ability to raise additional capital through the Company's issuance of Class A common stock. These alleviated the substantial doubt, and we believe the Company will be sufficiently funded to meet its planned expenditures and to meet the Company's obligations for at least the one-year period following its consolidated financial statement issuance date.

Principles of Consolidation

The consolidated financial statements include the variable interest entity ("VIE"), Aurea Alas Limited ("Aurea"), of which we are the primary beneficiary. Aurea is a Limited company organized in the Isle of Man, which entered into a license agreement with a third party vendor, whereby they licensed the rights to use certain available radio frequency spectrum for satellite communications. All intercompany transactions and balances have been eliminated on consolidation.

For entities determined to be VIEs, an evaluation is required to determine whether the Company is the primary beneficiary. The Company evaluates its economic interests in the entity specifically determining if the Company has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance ("the power") and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE ("the benefits"). When making the determination on whether the benefits received from an entity are significant, the Company considers the total economics of the entity, and analyzes whether the Company's share of the economics is significant. The Company utilizes qualitative factors, and, where applicable, quantitative factors, while performing the analysis.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. Examples of estimates and assumptions include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations, the fair value of and/or potential impairment of property and equipment; product life cycles; useful lives of our property and equipment; allowances for doubtful accounts; the market value of, and demand for, our inventory; fair value calculation of warrant; stock based compensation; the incremental borrowing rate used on right-of-use assets and the potential outcome of uncertain tax positions that have been recognized in our consolidated financial statements or tax returns.

Cash and Cash Equivalents

For purposes of balance sheet presentation and reporting of cash flows, the Company considers all unrestricted demand deposits, money market funds and highly liquid debt instruments with an original maturity of less than 90 days to be cash and cash equivalents. The Company had no cash equivalents at September 30, 2023 and December 31, 2022.

Periodically, the Company may carry cash balances at financial institutions more than the federally insured limit of $250,000 per institution. The amount in excess of the FDIC insurance as of September 30, 2023, was approximately $1.3 million. The Company has not experienced losses on these accounts and management believes, based upon the quality of the financial institutions, that the credit risk with regard to these deposits is not significant.

Stock Based Compensation

The Company accounts for stock-based compensation awards in accordance with ASC Topic 718, "Compensation – Stock Compensation." The cost of services received from employees and non-employees in exchange for awards of equity instruments is recognized in the consolidated statements of operations and comprehensive income based on the estimated fair value of those awards on the grant date and amortized on a straight-line basis over the requisite service period or vesting period. The Company records forfeitures as they occur.

Share-based payments are valued using a Black-Scholes option pricing model. The grants are amortized on a straight-line basis over the requisite service periods, which is generally the vesting period. If an award is granted, but vesting does not occur, any previously recognized compensation cost is reversed in the period related to the termination of service.

The expected option term is computed using the "simplified" method as permitted under the provisions of ASC 718-10-S99. The Company uses the simplified method to calculate expected term of share options and similar instruments as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The share price as of the grant date was determined by current market prices for our common stock. Expected volatility is based on the historical stock price volatility of comparable companies' common stock, as our stock does not have sufficient historical trading activity. Risk free interest rates were obtained from U.S. Treasury rates for the applicable periods.

Inventory

Inventory consists of finished goods and work in progress and consists of estimated revenue calculated on a percentage of completion based on direct labor and materials in relation to the total contract value. The Company does not maintain raw materials.

Contract Assets and Contract Liabilities

The amounts included within the contract assets and contract liabilities are related to the Company's long-term construction contracts. Retainage for which the company has an unconditional right to payment that is only subject to the passage of time is classified as contracts receivable. Retainage subject to conditions other than the passage of time are included in contract assets and contract liabilities on a net basis at the individual contract level. Contract assets represent revenue recognized in excess of amounts paid or payable (contracts receivable) to the company on uncompleted contracts. Contract liabilities represent the company's obligation to perform on uncompleted contracts with customers for which the company has received payment or for which contracts receivable are outstanding.

Property and Equipment

Property and equipment, consisting mostly of plant and machinery, motor vehicles, computer equipment and capitalized research and development equipment, is recorded at cost reduced by accumulated depreciation and impairment, if any. Construction in progress generally involves short-term capital projects and is not depreciated until the development has reached completion and the asset has been put into service. Depreciation expense is recognized over the assets' estimated useful lives of three – ten years using the straight-line method. Major additions and improvements are capitalized as additions to the property and equipment accounts, while replacements, maintenance and repairs that do not improve or extend the life of the respective assets, are expensed as incurred. Estimated useful lives are periodically reviewed and, when appropriate, changes are made prospectively. When certain events or changes in operating conditions occur, asset lives may be adjusted and an impairment assessment may be performed on the recoverability of the carrying amounts.

Fair Value Measurements

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value. The three tiers are defined as follows:

- Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2—Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

The Company's financial instruments, including cash, accounts receivable, contract assets and liabilities, prepaid expenses and other current assets, accounts payable and accrued liabilities, and loans payable, are carried at historical cost. At September 30, 2023 and December 31, 2022, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

Business Combinations

Business combinations are recorded using the acquisition method of accounting. The purchase price of the acquisition is allocated to the tangible assets, liabilities, identifiable intangible assets acquired and non-controlling interest, if any, based on their estimated fair values as of the acquisition date. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related expenses are expensed as incurred.

Intangible Assets

Intangible assets with an indefinite life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

Intangible assets with finite lives are initially recorded at cost and amortized on a straight-line basis over the estimated economic useful lives of the respective assets.

Acquired intangible assets from business combinations are recognized and measured at fair value at the time of acquisition. The identifiable intangible asset recognized in the Company's acquisitions is a customer list, which will be tested for impairment annually.

Revenue Recognition

Revenue from the Company is recognized under Topic 606 in a manner that reasonably reflects the delivery of its services and products to customers in return for expected consideration and includes the following elements:

- executed contracts with the Company's customers that it believes are legally enforceable;
- identification of performance obligations in the respective contract;
- determination of the transaction price for each performance obligation in the respective contract;
- Allocation of the transaction price to each performance obligation; and
- recognition of revenue only when the Company satisfies each performance obligation.

These five elements, as applied to each of the Company's revenue category, is summarized below:

Revenues from fixed price contracts that are still in progress at month end are recognized on the percentage-of-completion method, measured by the percentage of total costs incurred to date to the estimated total costs for each contract. This method is used because management considers total costs to be the best available measure of progress on these contracts. Revenue from fixed price contracts and time-and-materials contracts that are completed in the month the work was started are recognized when the work is shipped. To achieve this core principle, we apply the following five steps: identify the contract with the client, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to performance obligations in the contract and recognize revenues when or as the Company satisfies a performance obligation.

Revenues from fixed price service contracts that contain provisions for milestone payments are recognized at the time of the milestone being met and payment received. This method is used because management considers that the payments are nonrefundable unless the entity fails to perform as promised. If the customer terminates the contract, the Company is entitled only to retain any progress payments received from the customer and the Company has no further rights to compensation from the customer. Even though the payments made by the customer are nonrefundable, the cumulative amount of those payments is not expected, at all times throughout the contract, to at least correspond to the amount that would be necessary to compensate the Company for performance completed to date. Accordingly, the Company accounts for the progress under the contract as a performance obligation satisfied at a point in time. To achieve this core principle, we apply the following five steps: identify the contract with the client, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to performance obligations in the contract and recognize revenues when or as the Company satisfies a performance obligation.

Recent Accounting Pronouncements

In June 2022, the FASB issued ASU 2022-03, ASC Subtopic "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions". These amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments in this update are effective for public business entities for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its financial statements.

Note 3. Variable Interest Entity

The consolidated financial statements include Aurea Alas Limited (Aurea), which is a variable interest entity of which we are the primary beneficiary, and on August 26, 2020, the Company entered into a licensing agreement with Aurea. Aurea is a Limited company organized in the Isle of Man, which entered into a license agreement with a third-party vendor, whereby they licensed the rights to use certain available radio frequency spectrum for satellite communications. The Company is responsible for 100% of the operations of Aurea and derives 100% of the net profits or losses derived from the business operations. The assets, liabilities, and the operations of Aurea from the date of inception (July 20, 2020), were included in the Company's consolidated financial statements.

Through a declaration of trust, 100% of the voting rights of Aurea's shareholders have been transferred to the Company so that the Company has effective control over Aurea and has the power to direct the activities of Aurea that most significantly impact its economic performance. There are no restrictions on the consolidated VIE's assets and on the settlement of its liabilities and all carrying amounts of VIE's assets and liabilities are consolidated with the Company's financial statements.

If facts and circumstances change such that the conclusion to consolidate the VIE has changed, the Company shall disclose the primary factors that caused the change and the effect on the Company's financial statements in the periods when the change occurs.

As of September 30, 2023, and December 31,2022, Aurea's assets and liabilities are as follows:

	September 30, 2023	December 31, 2022
Assets		
Cash	$ 85,129	$ 76,517
Prepaid and other current assets	8,309	11,394
	$ 93,438	$ 87,911
Liabilities		
Accounts payable and other current liabilities	$ 59,621	$ 29,005

For the nine months ended September 30, 2023 and 2022, Aurea's net loss was $115,087 and $103,021, respectively.

Note 4. Prepaid expense and Other current assets

As of September 30, 2023, and December 31, 2022, prepaid expense and other current assets are as follows:

	September 30, 2023	December 31, 2022
Prepaid insurance	$ 267,619	$ 994,450
Prepaid components	1,317,634	950,679
Prepaid satellite services & licenses	4,199,006	1,367,125
Prepaid software	125,577	107,000
Other current assets	62,184	57,494
	$ 5,972,020	$ 3,476,748

During the nine months ended September 30, 2023, and 2022, the Company recorded interest expenses of $20,353 and $18,128, respectively related to financing of our prepaid insurance policies.

Note 5. Inventory

As of September 30, 2023, and December 31, 2022, inventory is as follows:

	September 30, 2023	December 31, 2022
Work in Process	$ 1,310,693	$ 583,437

Note 6. Property and Equipment

At September 30, 2023, and December 31, 2022, property and equipment consisted of the following:

	September 30, 2023	December 31, 2022
Office equipment	$ 17,061	$ 17,061
Computer equipment	41,233	37,296
Vehicle	28,143	28,143
Software	257,127	158,212
Machinery	3,202,642	3,386,111
Leasehold improvements	391,167	372,867
R&D software	-	386,182
Construction in progress	6,478,354	1,497,276
	10,415,727	5,883,148
Accumulated depreciation	(3,163,504)	(3,328,156)
Property and equipment, net of accumulated depreciation	$ 7,252,223	$ 2,554,992

As of September 30, 2023, and December 31,2022, construction in progress represents components to be used in the manufacturing of our satellites.

Depreciation expense of property and equipment for the nine months ended September 30, 2023 and 2022 is $148,166 and $238,859, respectively, of which $133,567 and $142,248 are included as components of cost of revenue.

Note 7. Business Acquisition

On August 18, 2023, the Company entered into an Asset Conveyance Agreement (the “Purchase Agreement”) with Exo-Space Inc., a Delaware corporation (“Exo-Space”), and certain shareholders thereof. The Purchase Agreement provided for the acquisition by the Company of substantially all of the assets of Exo-Space (the “Assets”) which includes the customer contracts and lists related to Exo-Space’s business of providing analytics services by (i) providing on-orbit data processing services, including satellite imaging intelligence services, and (ii) the development of artificial intelligence and machine learning technology and software used for the on-orbit processing of data (the “Business”) from Exo-Space. The purchase price for the Assets was approximately $468,000 in cash.

In addition, on August 18, 2023, the Company entered into a Sale of Business Non-Competition and Non-Solicitation Agreement with Exo-Space Inc. and each of Jeremy Allam (“Allam”), Mark Lorden (“Lorden”), Marcel Lariviere (“Lariviere”) and Tate Schaar (“Schaar” and collectively, with Allam, Lorden and Lariviere, the “Sellers”) pursuant to which the Sellers agreed to keep confidential certain information related to the Business and agreed to a five (5) year non-compete and non-solicitation.

On August 21, 2023 (the “Closing Date”), the Company completed its acquisition of the Assets related to Exo-Space (the “Acquisition”). As part of the Acquisition, Jeremy Allam, Marcel Lariviere, Mark Lorden and Tate Schaar entered into employment agreements with the Company which granted non-statutory stock options to Jeremy Allam, Marcel Lariviere, Mark Lorden and Tate Schaar with respect to the following number of shares of the Company’s common stock: 1,898,502 (Allam); 949,251 (Lariviere); 711,938 (Lorden) and 395,521 (Schaar). These option awards were made outside of the Company’s 2021 Omnibus Equity Incentive Plan and are made pursuant to the NASDAQ inducement grant exception in connection with such individuals’ commencement of employment with the Company which is August 21, 2023. The option awards have an exercise price of $0.16 which is equal to the fair market value of our stock on August 21, 2023, the date of grant of such options. The options have a five (5)-year term and shall vest in four (4) equal installments on each of the first four (4) anniversaries of the date of grant, in each case subject to the optionee continuing to provide services to the Company through the applicable vesting date. Notwithstanding the foregoing vesting conditions, no portion of the options shall be exercisable prior to the second (2^{nd}) anniversary of the date of grant. In the event that the applicable optionee resigns from employment for any reason prior to the second (2^{nd}) anniversary of the date of grant, the option will be immediately cancelled and terminated on the date of such resignation.

Pro forma results of operations have not been presented because the effects of the Acquisition was not material to our consolidated results of operations. Acquisition-related costs included legal fees of $220,632 and were expensed as incurred. The following table summarizes the amounts for the business acquisition which were allocated to the fair value of aggregated net assets acquired:

Cash paid	$	468,663
Assets Acquired:		
Accounts receivable	$	51,769
Inventory		9,611
Property and equipment		9,148
Intangible asset		398,135
Total	$	468,663

Note 8. Accounts payable and other current liabilities

At September 30, 2023, and December 31, 2022, accounts payable and other current liabilities consisted of the following:

	September 30, 2023		December 31, 2022	
Accounts payable	$	4,356,543	$	1,483,467
Payroll liabilities		1,202,108		820,451
Credit card liability		94,043		44,650
Other payable		200,824		239,110
Insurance payable		108,674		828,167
	$	5,962,192	$	3,415,845

Note 9. Asset-based loan

The Company is party to a recourse loan and security agreement with an unrelated lender dated November 30, 2022, whereby the lender will provide loans secured by certain accounts receivable for up to 90% of the face amount, which is paid to the Company in the form of a cash advance. The Company has a revolving line of credit for $2 million with a loan interest rate of 15.2% annum on outstanding balances. Additionally, in the event of default the Lender at its option can increase the loan interest rate by 5% per annum for each month or partial month default on outstanding balances. Under the loan and security agreement, the Company must pay back any invoices that become uncollectable. As of September 30, 2023, and December 31, 2022, the asset-based loan was $500,187 and $502,349, respectively. For the nine months ended September 30, 2023 and 2022, the costs and interest incurred by the Company in connection with the loan and security agreement activities were $100,629 and $0, respectively.

Note 10. Contract assets and liabilities

At September 30, 2023 and December 31, 2022, contract assets and contract liabilities consisted of the following:

Contract assets	September 30, 2023	December 31, 2022
Revenue recognized in excess of amounts paid or payable (contracts receivable) to the company on uncompleted contracts (contract asset), excluding retainage	$ -	$ -
Retainage included in contract assets due to being conditional on something other than solely passage of time	77,124	60,932
Retainage included in contract assets due to being conditional on something other than solely passage of time – related party	30,938	14,982
Total contract assets	$ 108,062	$ 75,914

Contract liabilities	September 30, 2023	December 31, 2022
Payments received or receivable (contracts receivable) in excess of revenue recognized on uncompleted contracts (contract liability), excluding retainage	$ -	$ -
Retainage included in contract liabilities due to being conditional on something other than solely passage of time	77,124	60,932
Retainage included in contract liabilities due to being conditional on something other than solely passage of time – Related party	30,938	14,982
Total contract liabilities	$ 108,062	$ 75,914

Note 11. Leases

Operating leases

We have a noncancelable operating lease entered in November 2016 for our office facility that expires in July 2021 and has renewal options to May 2024. The monthly “Base Rent” is $10,392 and the Base Rent is increased by 2.5% each year. In May 2023 the Company exercised its option and extended the lease to May 31, 2024.

In May 2021, we entered into a new lease agreement for our office and warehouse space that expires in May 2024. The Company shall have the option to terminate the lease after 12 months and 24 months from the commencement date. The monthly “Base Rent” is $11,855 and the Base Rent may be increased by 2.5% each year.

We recognized total lease expense, primarily related to our operating leases, on a straight-line basis in accordance with ASC 842.

As of September 30, 2023, and December 31, 2022, the Company recorded a refundable security deposit of $10,000 for its warehouse space and is included in other assets on the balance sheet.

The operating lease expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	$ 89,137	$ 80,019	$ 264,192	$ 251,370

Supplemental balance sheet information related to operating leases was as follows:

	September 30, 2023	December 31, 2022
Operating lease right-of-use assets at inception	$ 1,276,515	$ 1,119,675
Accumulated amortization	(1,092,715)	(869,738)
Total operating lease right-of-use assets, net	$ 183,800	$ 249,937
Operating lease liabilities - current	$ 189,718	$ 199,158
Operating lease liabilities - non-current	-	63,310
Total operating lease liabilities	$ 189,718	$ 262,468
Weighted-average remaining lease term — operating leases (year)	0.67	1.20
Weighted-average discount rate — operating leases	4.73%	4.86%

Future minimum lease payments under operating leases that have initial noncancelable lease terms in excess of one year at September 30, 2023 were as follows:

Year Ending December 31,	
2023 (excluding the nine months ended September 30, 2023)	$ 72,127
2024	120,211
Thereafter	-
	192,338
Less: Imputed interest	(2,620)
Operating lease liabilities	$ 189,718

Note 12. Notes Payable

Decathlon Note

On December 1, 2021, we entered into a Loan Assignment and Assumption Agreement, or Loan Assignment, with Decathlon Alpha IV, L.P., or Decathlon and Craig Technical Consulting, Inc (“CTC”) pursuant to which we assumed $1,106,164 in loans (the “Decathlon Note”) to CTC by Decathlon. In connection with our assumption of the Decathlon Note, CTC reduced the principal of the Note Payable – related party by $1.4 million. The Company recorded a reclassification of $1,106,164 from Note Payable – related party to Note payable – non- current (Decathlon note) and recorded forgiveness of note payable – related party of $293,836 during the year ended December 31, 2021.

Management believes that the assumption of the Decathlon Note from CTC is in our best interests because in connection therewith, Decathlon released us from a cross-collateralization agreement it was a party to with CTC for a loan of a greater amount. Also in connection with the Loan Assignment on December 3, 2021, we entered into a Revenue Loan and Security Agreement, or RLSA, with Decathlon and our CEO, Carol Craig, pursuant to which we pay interest based on a minimum rate of one (1) times the amount advanced and make monthly payments based on a percentage of our revenue calculated as an amount equal to the product of (i) all revenue for the immediately preceding month multiplied by (ii) the Applicable Revenue Percentage, defined as 4% of revenue for payments due during any month. The Decathlon Note is secured by our assets and is guaranteed by CTC and matures the earliest of: (i) December 9, 2023, (ii) immediately prior to a change of control, or (iii) upon an acceleration of the obligations due to a default under the RLSA.

During the nine months ended September 30, 2023, and 2022, the Company recorded interest expense of $541,123 and $137,143, respectively, which included an additional accrual estimate based on the principal and accrued but unpaid interest payment due when the note matures, and made payments of $223,995 and $213,708, respectively. As of September 30, 2023, and December 31,2022, the Company recorded principal amount and accrued interest of $1,916,278 and $1,599,150 on the balance sheet, respectively. At maturity the Company will be required to pay approximately $2.2M representing the Decathlon Note and accrued but unpaid interest. The company is currently in negotiations to extend the maturity term.

Note 13. Related Party Transactions

Revenue and Accounts Receivable

The Company recognized revenue of $766,985 and $864,319 for the nine months ended September 30, 2023 and 2022 and accounts receivable of $245,966 and $168,170, respectively from contracts entered into by Craig Technical Consulting, Inc, its majority shareholder and subcontracted to the Company for four customers.

The Company recognized contract asset and liability of $30,938 and $14,982 as of September 30, 2023 and December 31, 2022, respectively, related to contracts entered into by Craig Technical Consulting, Inc, its majority shareholder, and subcontracted to the Company for four customers.

Accounts Payable

As of September 30, 2023 and December 31, 2022, the Company owed $596,189 and $566,636, respectively to Craig Technical Consulting, Inc. Advances are unsecured, due on demand and non-bearing-interest.

Cost of Revenue

For the nine months ended September 30, 2023 and 2022, the Company recorded cost of revenue to Craig Technical Consulting, Inc. of $741,665 and $280,836, respectively.

Professional Service Agreements

A Professional Services Agreement, effective November 15, 2021, was made, between the Company and Craig Technical Consulting, Inc. The period of performance for this Agreement was December 1, 2021, through November 30, 2022. The Agreement was amended, and the term of the Agreement was extended to November 30, 2023.

During the nine months ended September 30, 2023 and 2022, the Company recorded professional services of $64,012 and $111,531, respectively.

Sublease

On August 1, 2021, the Company entered into a Sublease Agreement with its related party Majority Shareholder, CTC, (“Sublandlord”), whereby the Company shall sublease certain offices, rooms and shared use of common spaces located at 150 Sykes Creek Parkway, Merritt Island, FL. The Lease is a month-to-month lease and may be terminated with 30 days’ notice to the Sublandlord. The monthly rent is $4,570 from inception through January 31, 2022, $4,707 from February 1,2022 to January 31,2023 and $4,847 from February 1, 2023 to January 31, 2024. During the nine months ended September 30, 2023 and 2022, the Company recorded $43,483 and $42,226 to lease expenses, respectively.

Note 14. Commitments and Contingencies

Litigation

From time to time, the Company may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. We are currently not aware of any such legal proceedings or claims that will have, individually or in aggregate, a material adverse effect on our business, financial condition, or operating results.

License Agreement

The consolidated financial statements include Aurea Alas Limited, which is a variable interest entity of which we are the primary beneficiary (see Note 3). On August 18, 2020, Aurea entered into a license agreement with a third-party vendor (the "Vendor"), whereby they licensed the rights to use certain available radio frequency spectrum for satellite communications. The Company shall pay an annual Reservation Fee of $120,000 while the Company pursues up to four (4) Next Generation Non-geostationary-satellite Orbit (NGSO) satellite filing(s) via the Vendor. The Reservation Fee is levied on the date the filing(s) is received at the International Telecommunication Union (ITU). The Reservation Fee is payable annually at the anniversary of the date of receipt, as long as the customer retains the NGSO filing(s). The Reservation Fee payment continues to be payable until any of the frequency assignments of the NGSO filing(s) are brought into use. Upon submission to the ITU to bring into use any of the frequency assignments of a given constellation, an annual License Fee of $120,000 shall be paid in lieu of the Reservation Fee. On February 1, 2021, the Vendor submitted the license filing to the ITU and on April 6, 2021, the ITU published the license filing for LIZZIE IOMSAT. Payments began in February 2021. For the nine months ended September 30, 2023 and 2022 the Company recorded payments of $90,000 in Other General and Administrative expenses.

Note 15. Stockholder's Equity

Authorized Capital Stock

Effective July 3, 2023, the Company filed Amended and Restated Certificate of Incorporation to amend for authorized capital stock to authorize the Company to issue 215,000,000 shares.

The Company has authorized 5,000,000 shares of preferred stock with a par value of $0.0001.

The Company has authorized 210,000,000 shares of common stock with a par value of $0.0001, consisting of 200,000,000 shares of Class A Common Stock and 10,000,000 shares of Class B Common Stock. The Class B Common Stock is entitled to 10 votes for every 1 vote of the Class A Common Stock.

Class A Common Stock

On January 30, 2023, the Company offered an aggregate of up to 2,640,000 shares of our Class A common stock and pre-funded warrants to purchase up to an aggregate 12,360,000 shares of Class A common stock. In addition, the company issued 2,250,000 prefunded warrants to cover over-allotments. All pre-funded warrants were exercised and total issued stock in this offering was 17,250,000 aggregate shares of Class A common stock. The purchase price for each share of Class A common stock was $0.30. Warrants equal to 4% of the number of securities issued by the Company in the offering were issued to the underwriter at an exercise price of 125% of the offering price per share. Gross proceeds from the offering were approximately $5.2 million, and net proceeds of approximately $4.6 million after underwriter expenses.

On April 20, 2023, the Company sold an aggregate of 8,572,018 shares of our Class A Common Stock and pre-funded warrants to purchase up to an aggregate 21,731,012 shares of Class A Common Stock and warrants to purchase up to 30,303,030 shares of Class A Common Stock. In addition, the Company sold 3,787,874 shares of Class A Common Stock and 3,787,874 of accompanying warrants to purchase shares of Class A Common Stock pursuant to the partial exercise of the underwriter's over-allotment option. The purchase price for each share of Class A Common Stock and accompanying warrant was $0.33. Warrants equal to 3% of the number of securities issued by the Company in the offering at an exercise price of 125% of the offering price per share was issued to the underwriter. Gross proceeds from the offering were approximately $11.2 million, and net proceeds of approximately $10.2 million after underwriting discounts and commissions and estimated offering expenses payable by us.

During the nine months ended September 30, 2023, 11,601,919 Class A Common Stock were issued upon cashless exercise of warrants and 21,731,012 Class A Common Stock were issued upon exercise of pre-funded warrants of $2,173.

The Company had 70,965,559 and 8,022,736 shares of Class A common stock issued and outstanding as of September 30, 2023 and December 31,2022, respectively.

The Company had a total of 136,463 shares with a value of $25,000 to be issued out of the Omnibus Equity Incentive Plan related to the Board Stock Compensation as of September 30, 2023.

Class B Common Sock

The Company had 10,000,000 shares of Class B common stock issued and outstanding as of September 30, 2023 and December 31, 2022.

Warrants

January 2023 offering

For the nine months ended September 30, 2023, the Company issued a total of 14,610,000 pre-funded warrants exercisable for a period of five years at an exercise price per share of $0.30 in connection with the common stock sold in January 2023. These warrants were fully exercised into Class A Common stock as part of the offering previously described. In addition, the Company issued a total of 690,000 underwriter warrants exercisable 180 days after the January 30,2023 date of the offering agreement, for a period of five years at an exercise price per share of $0.375 in connection with the common stock sold.

April 2023 offering

For the nine months ended September 30, 2023, the Company issued a total of 21,731,012 pre-funded warrants and 34,090,904 warrants exercisable for a period of five years at an exercise price per share of $0.33 in connection with the common stock sold in April 2023. During the second and third quarters of 2023, a total of 21,731,012 pre-funded warrants and 23,203,838 warrants were exercised into Class A Common stock. In addition, the Company issued a total of 1,022,727 underwriter warrants exercisable 180 days after the April 20,2023 date of the offering agreement, for a period of five years at an exercise price per share of $0.413 in connection with the common stock sold.

For the nine months ended September 30, 2023, and 2022, the Company recognized finance expense of $806,754 and $0, respectively, for underwriter warrants issue for compensation of services.

The Company utilizes the Black-Scholes model to value its warrants. The Company utilized the following assumptions:

	Nine Months Ended September 30, 2023	
Expected term	5 years	
Expected average volatility	182 - 190	%
Expected dividend yield	-	
Risk-free interest rate	3.62 - 3.96	%

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A summary of activity of the warrants during the nine months ended September 30, 2023 as follows:

	Number of warrants	Weighted Average Exercise Price	Average Life (years)
Outstanding, December 31, 2022	-	$ -	-
Granted	14,610,000	0.30	5.00
Granted	55,821,916	0.33	5.00
Granted	690,000	0.38	5.00
Granted	1,022,727	0.41	5.00
Exercised	(14,610,000)	0.30	-
Exercised	(44,934,850)	0.33	-
Expired	-	-	-
Outstanding, September 30, 2023	12,599,793	$ 0.34	4.55
Exercisable, September 30, 2023	11,577,066	$ 0.31	4.18

The intrinsic value of the warrants as of September 30, 2023 is $0.

Stock Options

On August 21, 2023, the Company granted 3,955,212 options with an exercise price of $0.16, with a term of five (5) years to exercise from the grant date, to employees of the Company. Options issued vest at 25% of shares subject to the option on each anniversary date, on August 21, 2024, 2025, 2026 and 2027.

The Company utilizes the Black-Scholes model to value its stock options. The Company utilized the following assumptions:

	Nine Months Ended September 30, 2023
Expected term	3.75 years
Expected average volatility	1,668 %
Expected dividend yield	-
Risk-free interest rate	4.46 %

During the nine months ended September 30, 2023, the Company granted 3,955,212 options valued at $637,184. During the nine months ended September 30, 2023, the Company recognized stock option expense of $13,275 and as of September 30, 2023, $623,909 remains unamortized. The intrinsic value of the 3,955,212 options outstanding as of September 30, 2023, is $0.

A summary of activity of the stock options during the nine months ended September 30, 2023, is as follows:

	Options Outstanding		Weighted Average Remaining life (years)
	Number of Options	Weighted Average Exercise Price	
Outstanding, December 31, 2022	-	$ -	-
Granted	3,955,212	0.16	5.00
Exercised	-	-	-
Forfeited/canceled	-	-	-
Outstanding, September 30, 2023	3,955,212	$ 0.16	4.90
Vested options, September 30, 2023	-	$ -	-
Exercisable options, September 30, 2023	-	$ -	-

Note 16. Subsequent Events

On October 17, 2023, the Company issued 5,050,505 shares of Class A common stock due to exercise of 10,101,010 cashless warrants to Ionic Ventures related to our April 2023 offering.

On October 11, 2023, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with certain institutional investors, pursuant to which the Company agreed to issue and sell to such investor, in a registered direct offering (the “Offering”), an aggregate of 2,000 shares of the Company’s Series A convertible preferred stock, par value $0.0001 per share and stated value of $1,000 per share (the “Series A Preferred Stock”) at an offering price of $1,000 per share. Each share of Series A Preferred Stock is convertible into shares of the Company’s Class A Common Stock at an initial conversion price of 0.10152 per share (the “Conversion Price”). The Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a “full ratchet” basis, in the event of any issuances of Common Stock, or securities convertible, exercisable or exchangeable for Common Stock, at a price below the then-applicable Conversion Price (subject to certain exceptions). The Series A Preferred Stock (and the shares of the Company’s Class A common stock (the “Class A Common Stock”)) underlying the Series A Preferred Stock) were offered by the Company pursuant to its shelf registration statement on Form S-3 (File No. 333-273430), which was originally filed with the Securities and Exchange Commission (the “SEC”) on July 26, 2023 and declared effective by the SEC on August 14, 2023. Concurrently with the sale of the Series A Preferred Stock, pursuant to the Purchase Agreement in a concurrent private placement, for each share of Class A Common Stock issuable upon conversion of the Series A Preferred Stock purchased by the investor, such investor received from the Company an unregistered warrant (the “Warrant”) to purchase one share of Class A Common Stock (the “Warrant Shares”). Each Warrant will be exercisable for one share of the Company’s Class A Common Stock at an exercise price of $0.10152 per share, will be exercisable immediately upon issuance, and will have a term of five years from the date of issuance. The exercise price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a “full ratchet” basis, in the event of any issuances of Class A Common Stock, or securities convertible, exercisable or exchangeable for Class A Common Stock, at a price below the then-applicable exercise price (subject to certain exceptions).

On November 3, 2023, holders of 90 shares of Series A convertible preferred stock converted their shares into an aggregate of 886,525 shares of Class A common stock at a conversion price of $0.10152 per share.

On November 7, 2023, holders of 30 shares of Series A convertible preferred stock converted their shares into an aggregate of 295,508 shares of Class A common stock at a conversion price of $0.10152 per share.

On November 9, 2023, holders of 68 shares of Series A convertible preferred stock converted their shares into an aggregate of 669,818 shares of Class A common stock at a conversion price of $0.10152 per share.

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

Forward-Looking Statements and Industry Data

This Quarterly Report on Form 10-Q contains forward-looking statements which are made pursuant to the safe harbor provisions 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 statements may be identified by such forward-looking terminology as "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. Our forward-looking statements are based on a series of expectations, assumptions, estimates and projections about our company, are not guarantees of future results or performance and involve substantial risks and uncertainty. We may not actually achieve the plans, intentions or expectations disclosed in these forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in these forward-looking statements. Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including the risks and uncertainties inherent in our statements regarding:

- our projected financial position and estimated cash burn rate;
- our estimates regarding expenses, future revenues and capital requirements;
- our ability to continue as a going concern;
- our need to raise substantial additional capital to fund our operations;
- our ability to compete in the global space industry;
- our ability to obtain and maintain intellectual property protection for our current products and services;
- our ability to protect our intellectual property rights and the potential for us to incur substantial costs from lawsuits to enforce or protect our intellectual property rights;
- the possibility that a third party may claim we have infringed, misappropriated or otherwise violated their intellectual property rights and that we may incur substantial costs and be required to devote substantial time defending against these claims;
- our reliance on third-party suppliers and manufacturers;
- the success of competing products or services that are or become available;
- our ability to expand our organization to accommodate potential growth and our ability to retain and attract key personnel;
- the potential for us to incur substantial costs resulting from lawsuits against us and the potential for these lawsuits to cause us to limit our commercialization of our products and services;

All of our forward-looking statements are as of the date of this Quarterly Report on Form 10-Q only. In each case, actual results may differ materially from such forward-looking information. We can give no assurance that such expectations or forward-looking statements will prove to be correct. An occurrence of, or any material adverse change in, one or more of the risk factors or risks and uncertainties referred to in this Quarterly Report on Form 10-Q or included in our other public disclosures or our other periodic reports or other documents or filings filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC") could materially and adversely affect our business, prospects, financial condition and results of operations. Except as required by law, we do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections or other circumstances affecting such forward-looking statements occurring after the date of this Quarterly Report on Form 10-Q, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. Any public statements or disclosures by us following this Quarterly Report on Form 10-Q that modify or impact any of the forward-looking statements contained in this Quarterly Report on Form 10-Q will be deemed to modify or supersede such statements in this Quarterly Report on Form 10-Q.

This Quarterly Report on Form 10-Q may contain estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. We obtained the industry and market data in this annual report on Form 10-Q from our own research as well as from industry and general publications, surveys and studies conducted by third parties. This data involves a number of assumptions and limitations and contains projections and estimates of the future performance of the industries in which we operate that are subject to a high degree of uncertainty, including those discussed in "Risk Factors." We caution you not to give undue weight to such projections, assumptions, and estimates. Further, industry and general publications, studies and surveys generally state that they have been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe that these publications, studies, and surveys are reliable, we have not independently verified the data contained in them. In addition, while we believe that the results and estimates from our internal research are reliable, such results and estimates have not been verified by any independent source.

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited interim consolidated financial statements and the related notes appearing elsewhere in this Quarterly Report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as may be amended, supplemented or superseded from time to time by other reports we file with the SEC. All amounts in this report are in U.S. dollars, unless otherwise noted.

Throughout this Quarterly Report on Form 10-Q, references to "we," "our," "us," the "Company," "Sidus," or "Sidus Space" refer to Sidus Space, Inc., individually, or as the context requires, collectively with its subsidiary.

Overview

Description of Business

Founded in 2012, we are a growing U.S. commercial space company with an established manufacturing business who has been trusted to provide mission-critical space hardware to many of the top aerospace businesses for over a decade. We plan to offer on-orbit services as the space economy expands; said services are either in a developmental phase or soon to achieve flight heritage. We have strategically decided to expand our business by moving up the satellite value chain by becoming a provider of responsive and scalable on-orbit infrastructure as well as collecting Space and Earth observational data to capture larger market needs.

To address Commercial and Government customer needs and mission sets, we plan to organize into three core business lines: manufacturing services; space-infrastructure-as-a-service; and space-based data and insights. Our vertically integrated model is complementary across each line of business aiming to expand existing and unlock new potential revenue generating opportunities. Additionally, we look to further transition into a subscription-based model upon the digitization of our manufacturing process as we expand alongside our space-based focus.

Products and Services

● Manufacturing Services: Our manufacturing business is well-established, trusted by industry leaders and growing. Founded in 2012, we have been manufacturing mission-critical and satellite hardware for over a decade for our principal customers and have supported major Government and Commercial space programs like NASA's Artemis / Lunar Gateway missions, xEVAS, Boeing's Starliner, Sierra's Dream Chaser, Airbus' OneWeb Satellites and the International Space Station.

Our manufacturing business operates within a 35,000 square foot facility and is adjacent to our clean-room facility. We hold an AS9100 Aerospace certification, and we are International Traffic In Arms Regulations (ITAR) compliant thereby positioning us, in combination with our existing tooling and capability, to address unique high-precision manufacturing requirements.

● Space-Infrastructure-as-a-Service: We are in the process of developing and launching space-based infrastructure and establishing related ground-infrastructure support elements. Payload providers are our principal customers and target customers who wish to outsource constellation operations. Collectively, the end-to-end infrastructure that results is offered as "Space-as-a-Service" to commercial customers and "Defense-as-a-Service" to certain government customers.

Leveraging our industry experience and flight heritage, we are producing our own line of additively manufactured (3D printed) satellites in-house (LizzieSats) that are engineered to have the capacity and adaptability to simultaneously host our payloads for our own purposes (see Space-Data-as-a-Service below) or offer 'ride-share' opportunities for payload customers to deliver data to their end users. We anticipate "bookings" on our infrastructure in our planned 'rideshare program' as a key performance metric.

Our Space-Infrastructure-as-a-Service offering plans to provide: satellite design, satellite manufacture, constellation operations, and payload hosting.

As of September 2023, We have:

● signed a multi-year and multi-launch agreement with Space-X thereby offering customers by extension a reliable, cost-effective launch service;

● obtained approval for a 100+ satellite constellation by the International Telecommunication Union (ITU);

● established partnerships with a globally diverse network of 20+ ground stations to provide our users with near continuous high-rate, "on-orbit to cloud", communications network;

● secured a mission operations center located on the Florida Space Coast, in Merritt Island, FL capable to manage satellite operations, orchestrate collection management tasks and satisfy data distribution requests with intentions to automate many elements of this process.

Over time, we plan to begin introducing additional services beyond on-orbit infrastructure services which may include lunar mapping missions, in support of government requirements for on-orbit maneuverability. Each business opportunity is evaluated on an individual business case basis and safeguarded against risk to our core business.

● Space Data-as-a-Service and Insights: We plan to be a global provider of space-based data and insights by exclusively collecting data that only can be captured from space with no terrestrial alternatives. We plan to initially focus on creating offerings in Earth-based observations and Space situational awareness. These decisions are reinforced by the growing and large addressable markets they represent.

To date, the space-based data industry has largely launched one-satellite, one-payload, one-mission constellations to deliver one general data type. Subsequently, downstream processing and associated analytics, at times, have experienced false-positives and ambiguous data sets diminishing the value and utility of space-based data.

Our LizzieSat satellite platform addresses this shortcoming by allowing for differentiated data collection when compared to industry alternatives. We plan to lead the next generation of Earth and Space data collection by:

● Collecting on-orbit coincident data: LizzieSat is capable of hosting multiple-sensors on the same satellite to collect varying data types at the same time and with the same collection geometry. On-orbit coincident collection benefits users by decreasing false positives with complementary datasets that reinforce one another.

● Analyzing data on the satellite on-orbit at "the edge": In order to maximize value and speed in data processing, in August 2023, we acquired substantially all of the assets of Exo-Space, a cutting-edge Artificial Intelligence (AI) company to better facilitate (AI) and Machine Learning (ML) on-board the satellite through hardware and software development. Our plans include integrating radiation hardened AI/ML capabilities alongside our on-orbit coincident data collection.

● Reducing data size: By processing data at the edge on-board LizzieSat, we are able to first reduce the file size by transmitting only the processed answer, not the entire raw dataset. This enables us to move data from low-Earth orbit to higher orbit data relay services (like Iridium) for a lower-cost and more continual data transmission option to our customers.

The net value of data collected from our planned LizzieSat constellation allows organizations to make better decisions with higher confidence, increased accuracy and speed. The Company enriches this processed data with customizable analytics users control for their own-use case, and in turn provide data as a subscription across industries to organizations so they are able to improve decision-making and mitigate risk.

We support a broad range of international and domestic governments and commercial companies with hardware manufacturing including the Netherlands Organization, U.S. Department of State, the U.S. Department of Defense, NASA, Collins Aerospace, Lockheed Martin, Teledyne Marine, Bechtel, and L3Harris in areas that include launch vehicles, satellite hardware, and autonomous underwater vehicles. Planned services that benefit current and future customers include delivering space-based data that can provide critical insight for agriculture, commodities tracking, disaster assessment, illegal trafficking monitoring, energy, mining, oil and gas, fire monitoring, classification of vegetation, soil moisture, carbon mass, Maritime AIS, Aviation ADS, and weather monitoring; providing the ability for customers to demonstrate that a technology (hardware or software) performs successfully in the harsh environment of space and delivering space services. We plan to own and operate one of the industry's leading U.S. based low earth orbit ("LEO") small satellite ("smallsat" or "smallsats") constellations focused on earth observation and remote sensing. Our operating strategy is to continue to enhance the capabilities of our satellite constellation, to increase our international and domestic partnerships and to expand our analytics offerings in order to increase the value we deliver to our customers. Our two operating assets—our satellite constellation and hardware manufacturing capability—are mutually reinforcing and are a result of years of heritage and innovation.

Key Factors Affecting Our Results and Prospects

We believe that our performance and future success depend on several factors that present significant opportunities but also pose risks and challenges, including competition from better known and well-capitalized companies, the risk of actual or perceived safety issues and their consequences for our reputation and the other factors discussed under "Risk Factors." We believe the factors discussed below are key to our success.

Growing our experienced space hardware operations

We are on track to grow our space and defense hardware operations, with a goal of expanding to two and a half shifts with an increased customer base in the future. With current customers in space, marine, and defense industries, our contract revenue is growing, and we are in active discussions with numerous potential customers, including government agencies, large defense contractors and private companies, to add to our contracted revenue. In the past decade, we have fabricated Ground and Flight products for the NASA SLS Rocket and Mobile Launcher as well as other Commercial Space and Satellite companies. Customers supported include Boeing, Lockheed Martin, Northrop Grumman, Dynetics/Leidos, Blue Origin, United Launch Alliance, Collins Aerospace, L3Harris, OneWeb and Space Systems Loral/Maxar. Various products have been manufactured including fluid, hydraulic and pneumatic systems, electrical control systems, cable harnesses, hardware lifting frames, umbilical plates, purge and hazardous gas disconnects, frangible bolts, reef cutters, wave guides, customized platforms, and other precision machined and electrical component parts for all types of Rockets, Ground, Flight and Satellite systems.

Commencing and Expanding Commercial Satellite Operations

Our goal is to help customers understand how space-based data can be impactful to day-to-day business. Our strategy includes increasing the demand downstream by starting out as end user focused. While others are focused on data verticalization strategy specializing on a key sectors or problem set, we believe that flexibility in production, low-cost bespoke design and 'Bringing Space Down to Earth' for consumers will provide a scalable model for growth. With LizzieSat design reviews (PDR and CDR) successfully completed in 2022, we began LizzieSat integration and testing in Q1 2023. We completed critical command and data system testing which validated the proper functioning of the communications and data transfer paths between a LizzieSat satellite in space and the KSAT, Atlas Space Operations and Leaf Space ground stations, a requirement for mission success of the LizzieSat™ constellation.

In Q1 2023 we signed an agreement with SkyWatch for use of its TerraStream data-management platform. This agreement is expected to accelerate the expansion of Sidus' commercial data distribution strategy, which includes white labeling data for the Company's existing customers as well as driving growth of new data customers. Serving as a key contributor to the Space data marketplace, the agreement is expected to generate additional revenue for the Company and engage customers that otherwise may not have connected with Sidus. In Q3 2023 we announced the acquisition of substantially all the assets of Exo-Space, a cutting-edge California based firm specializing in Edge Artificial Intelligence (AI) software and hardware applications in order to integrate EdgeAI capabilities into our planned constellation with ExoSpace's FeatherEdge AI platform which will enable us to deliver near real-time intelligence derived from Earth Observation data. Further expanding the capabilities of our constellation, we announced an agreement with SatLab to implement its second-generation automated identification system (AIS) technology into the LizzieSat™ satellite constellation. AIS technology uses sophisticated systems on board marine vessels to identify and track ships to prevent collisions and protect life at sea. The integration of this technology into Sidus's satellites will enable more accurate vessel tracking and monitoring while providing valuable information about ship movements in real time.

In January 2023, we were awarded a follow-on agreement for the next phase of NASA's Autonomous Satellite Technology for Resilient Applications (ASTRA) project. During this phase of the ASTRA project, the Autonomous Systems Lab (ASL) team at NASA's Stennis Space Center near Bay St. Louis, Mississippi, will join Sidus Space to integrate ASTRA's autonomous operational on-orbit capabilities on a Sidus-built LizzieSat satellite as the organizations transition to the operational phase of the program.

In February 2023, we executed a multi-million dollar agreement with The Netherlands Organization for Applied Scientific Research (TNO) to deploy and test TNO's laser communications technology aboard our LizzieSat™ satellite expanding our international presence.

In June 2023, we were awarded 2 contracts with Space Florida. We will be working with Space Florida to integrate specialized equipment on a Sidus-built LizzieSat satellite as part of 2 Florida-Israel Innovation Partnership projects.

We are in active discussions with numerous potential customers, including domestic and international government agencies, for payload hosting and data related to our planned satellite launches over the next 24 months.

We have previously been approved for our X-band and S-band radio frequencies licensing through a published filing by the ITU on April 4, 2021. Such licenses are held through Aurea Alas, Ltd., an Isle of Man company, which is a VIE to us. The ITU filing contains approved spectrum use for multiple X-Band and S-Band frequencies and seven different orbital planes, including 45 degrees. In August 2023, the FCC approved the LizzieSat-1 launch and operating license for launch and deploy on a SpaceX Falcon 9. In addition, we filed a Part 25 license request with the FCC for the LizzieSat constellation through LizzieSat six mission. The FCC Part 25 license request is currently in the review period. A NOAA License request was approved to fly Dragonfly Gecko on LizzieSat One. The Gecko images will be integrated into our FeatherBox AI onboard processor and Automated Information Systems (AIS) to detect marine traffic migration and illegal fishing activities. Any delays in commencing our commercial launch operations, including due to delays or cost overruns in obtaining NOAA licenses or other regulatory approvals for future operations or frequency requirements, could adversely impact our results and growth plans.

Our Vertically Integrated Space Infrastructure

We are designing, developing, manufacturing, and planning to operate a constellation of proprietary smallsats. These satellites are designed for multiple missions and customers and form the foundation of our satellite platform. Weighing approximately 100 kilograms each, these hybrid 3D printed, modular satellites are more functional than cubesats and nanosatellites and less expensive to manufacture than the larger satellites in the 200-600kg range. Launched into a LEO and operating in diverse orbits (28°-98° inclination, 300-650km altitude) as approved by the International Telecommunication Union (ITU) in February 2021, our constellation will be optimally distributed to provide maximum coverage for our customers in the government and commercial sectors. With six initial globally distributed ground stations, our constellation is designed for rapid tasking, collection, and delivery of high-revisit, high-resolution imagery and data analytics. As our satellite constellation grows, the amount of data we collect will scale, and we expect our revisit rate will improve.

Our cost-efficient smallsats are designed from the ground-up to optimize performance per unit cost. We can integrate technologies and deliver data on demand at lower costs than legacy providers due to our vertical integration, use of Customer Off the Shelf (COTS) proven systems, cost-efficiencies, capital efficient constellation design, and adaptable pricing models.

We manufacture our satellites at our Cape Canaveral facility. Our current configuration and facility is designed to manufacture 5-10 satellites a month. Our vertical integration enables us to control our satellites through the entire design, manufacturing, and operation process. Our years of experience manufacturing space hardware means we are able to leverage our manufacturing expertise and commercial best practices for satellite production. Additionally, leveraging both in-house and partner-provided subsystem components and in-house design and integration services, as well as operational support of satellites on orbit, to provide turn-key delivery of entire constellations offer "concept to constellation" in months instead of years. Specifically, our Space and Defense-as-a-Service offerings encompass all aspects of hosted satellite and constellation services, including hosting customer payloads onto our satellites, and delivering services to customers from our space platform. These services are expected to allow customers to focus on developing innovative payloads rather than having to design or develop complete satellite buses or satellites or constellations, which we will provide, along with ancillary services that are likely to include telemetry, tracking and control ("TT&C"), communications, processing, as well as software development and maintenance. Our patented technologies include a print head for regolith-polymer mixture and associated feedstock; a heat transfer system for regolith; a method for establishing a wastewater bioreactor environment; vertical takeoff and landing pad and interlocking pavers to construct same; and high-load vacuum chamber motion feedthrough systems and methods. Regolith is a blanket of unconsolidated, loose, heterogeneous superficial deposits covering solid rock. It includes dust, broken rocks, and other related materials and is present on Earth, the Moon, Mars, some asteroids, and other terrestrial planets and moons. We continue to patent our products including our satellites, external platforms and other innovations.

Revenue Generation

We generate revenue by selling payload space on our satellite platform, providing engineering and systems integration services to strategic customers on a project-by-project basis, and manufacturing space hardware. Additionally, we intend to add to our revenue by selling geospatial data and actionable intelligence captured through our constellation. This support is typically contracted to both commercial and government customers under fixed price contracts and often includes other services. Due to the size and capacity of our satellite, we are able to host a diverse array of sensors such as Multispectral and Hyperspectral Earth Observing Imagers, Maritime Vessel RF Tracking receivers, UHF IoT Transceivers, Optical Communications gear and others on a single platform that can simultaneously address the needs of many customer requirements.

Lowering Manufacturing Cost and Schedule

We are developing a manufacturing model that provides rapid response to customer requirements including integration of customers technologies and space-based data delivery. Our planned satellites are being designed to integrate Customer Off the Shelf (COTS) subsystems that are space-proven, can be rapidly integrated into the satellite and replaced rapidly when customer needs change or evolve. Our vertically integrated manufacturing processes give us the flexibility to make changes during the production cycle without impacting launch or costs.

Environmental, social, and corporate governance

While Environmental, Social and Governance (ESG) reporting is not mandatory, we are developing an ESG policy that will implement the tracking of several indicators we believe are critical to ensure we are doing our part to continue sustainable growth and maximize shareholder value. We have been in business for over ten years manufacturing space hardware and components, and in that time, implementation of policies and processes to mitigate environmental impact have been of upmost importance. Furthermore, since our inception, we have recognized the value of our employees and have always prioritized employee well-being through facets such as excellent benefits, programs, educational assistance, and insurance of a safe and healthy work environment. We also understand that our efforts to promote value and well -being are not limited to our employees. We are committed to the communities we belong to both locally and professionally. We recently started to formalize this commitment, providing tangible benefits back to the community that supports us.

Environmental

As the global awareness and importance of environmental sustainability increases, we recognize our duty to implement developments that not only facilitate the evolution of aerospace solutions, but also promote environmentally conscious protocols yielding measurable results toward the conservation of our planet. A key component of our focus on sustainability is found in our utilization of in-house 3D printing technology as a primary manufacturing asset. The development of 3D printing is host to a variety of manufacturing improvements but perhaps the chief benefits are seen in its reduction of environmental strain. Our LizzieSat constellation will contribute to this reduced impact as a portion of the satellite bus is 3D printed.

Manufacturing parts with a 3D printer reduces overall energy consumption and waste, reducing our carbon footprint compared to its predecessor of conventional machining. Additional benefits include the removal of waste and unnecessary energy associated with conventional machining, often resulting in the production of more scrapped material per part than the material that part is composed of. While these are the biggest impacts, the effects too can be seen in smaller scales. Due to the massive reduction in weight 3D printing provides, energy spent using cargo ships and commercial vehicles for transportation sees a significant decrease. This reduction in weight is accompanied by a reduction in space requirements for housing the material, cutting out the need for large storage spaces and the energy needed to maintain those facilities.

Looking toward the future, the potential for exciting developments in the field of sustainability are of upmost importance. These developments include the use of more biodegradable and/or recycled materials that can be used to manufacture parts and further benefit the environment. Until these developments occur, we are doing our part through the practice of recycling roughly 5,000 lbs. of metal a year coupled with the recycling of any used oil and coolant. As technologies continue to advance, we remain dedicated to preserving the Earth and continuing to evolve with newer technologies as they develop.

Social

We recognize the importance of our employees, the community with which we are situated as well as the global community. This recognition has led us to implement a variety of actions that support society from the individual to global scale.

Employee well-being is at the heart of our commitment to provide a positive impact on all. With our core values being rooted in a familial and communal structure, we uphold these values by offering our employees excellent benefits, programs, educational assistance, and insurance of a safe and healthy work environment for all employees. We understand the importance of diversity in the workplace because it was built by diversity.

Community on all scales is fundamental to our success, and because of that, we are committed to leaving a lasting impact on the community that supports us. This commitment brought forth Sidus Serves, our way of actively improving life on earth. Community involvement is key to our culture, and we believe in the power of volunteerism. We actively invest in the communities of our employees' by supporting K-12 education, providing military and veteran assistance, environmental stewardship, and volunteering at local non-profit organizations. We, and our employees, are passionate about the improvement of their communities through individual efforts and partnership with local, regional, and national organizations. We are proud to support local STEM programs and schools in local communities. We are focused on bridging the gap in the aerospace field by supporting young professionals through establishing partnerships with several organizations dedicated to providing STEM learning opportunities to a diverse array of students.

Governance

Our governance structure is designed to promote transparency, efficiency, and ethics. Through a qualified and diverse chain of command, we are confident that our decision making will carry out performance at the highest degree. Our Board of Directors consists of professionals with strong executive experience, business strategy and leadership skills. Our board consists of 3 independent directors alongside our CEO and CTO including 2 women.

Global Space Industry Overview

In recent years, the importance of the space economy has been growing as technological advances in both satellites and supporting terrestrial technologies have enabled new commercial use cases. These use cases include satellite broadband, remote imaging, Internet-of-Things ("IOT")/Machine-to-Machine ("M2M") communications, defense-related applications, as well as others. As a result, several new and existing operators have announced new satellite constellations to serve these use cases. Many of these announced constellations will consist of small LEO satellites rather than large GEO satellites. With the flux of new entrants at all levels of the value chain, the small satellite value chain has continued to evolve, especially in the launch sector, downstream value-added applications, M&As and consolidation between stakeholders.

The rapid pace of innovation and technological advancements continue to drive the commercialization of space-based data, analytics, and insights, enhancing their relevance to businesses, governments, and the general public. Furthermore, the demand for data that can be collected from space is growing rapidly while the cost of accessing space is decreasing. Several key trends have emerged in the new space economy, including the expansion of constellations and the availability of space-based data, the shift in user demand towards analytics and insights, climate change adaptation, global security concerns, and advancements in on-board technologies.

According to *Citi Report 2022: Space – Dawn of a New Age: published in 2022*, forecasts a $1 trillion annual revenue for the space economy by 2040, an increase from $370 billion in 2020 with forecasts of strong growth in satellites, government space budgets, as well as new applications and industries in the field of space exploration.[1] In addition, *Prospects for the Small Satellite Market – A Euroconsult Report 8th Edition July 2022*, expects that over the next decade, the total manufacturing and launch market value for small satellites is expected to reach $84 billion, more than 3.5 times the market value over 2012-2021. Although this indicates significant growth, it does not reflect the six-fold increase in the mass of smallsats resulting from the rise of cubesats, constellations and the introduction of low-cost systems for both manufacturing and launch, which reduce average costs per satellite.

Rapid growth in private investment in the commercial space industry has led to a wave of new companies reinventing major elements of the traditional space industry, including human spaceflight, satellites, and launch, in addition to unlocking entirely new market segments. Furthermore, government agencies have realized the value of the private commercial space industry and have become increasingly more supportive and reliant on private companies to catalyze innovation and advance national space objectives. In the United States, this has been evidenced by notable policy initiatives and by commercial contractors' growing share of space activity.

Launch Market

Space access has traditionally been limited to those with significant capital expenditures, with launch costs remaining high, with few exceptions. Launch costs have traditionally been the primary bottleneck impeding the development of orbital activities. The frequency and availability of launches, while acceptable for the legacy market (several times a year), has proved paralyzing to some operators of small satellites. Although new launch provider entrants seek to offer higher launch rates and more flexibility to small satellites, capital remains the main barrier to entry.

After years of launch bottlenecks, smallsats now enjoy more launch options as new launchers, brokers and smallsat dispensers become available and facilitate access to space. According to Euroconsult, the smallsat launch market which was valued at $7.6 billion is set to grow by +279% to $28.4 billion, however much of that launch value remains captive of national industries and vertically integrated players (e.g., SpaceX). Since the demand for small satellites had been fragmented and considered less profitable than larger satellites, launch providers had not actively pursued the launch business. However, this has now changed, as the launch supply has adapted rapidly.

Small Satellite Market

Since 2018, a paradigm shift in the commercial space market has resulted in an increased demand for smallsats. Euroconsult states that smallsats have become smaller in size over the past few years but have gained in performance. Technical advances have allowed them to expand their mission capabilities, making them more resilient, effective, and lower cost. Miniaturization is a continuous process that allows the customer to choose between lighter satellites with no change in capabilities, or bigger, more powerful, and more capable satellites with greater capabilities. Other technical enablers include, but are not limited to:

- Extension of electrical propulsion use;
- Miniaturization of attitude sensors;
- Solar cells and batteries' efficiency improvement;
- COTS solutions for bus electronics; 3D printing.

The demand for large geosynchronous satellites declined dramatically as companies prepared to launch constellations of smaller, cheaper broadband satellites in low and medium Earth orbits, resulting in a dramatic decrease in demand for large geosynchronous communications satellites. New technologies in space and space-related sectors, particularly computational technologies, and data analytics, are facilitating the miniaturization of satellite systems, thereby improving the market. Due to this, smallsats are now able to provide operational services previously only available through heavier satellites. Euroconsult anticipates that about 18,500 smallsats (<500 kg) will launch over 2022-2031, or about 365 tons per year, (i.e., one ton per day on average over the next 10 years).

Moreover, the rise of this market has also created a new market segment in nanosatellites and microsatellites, weighing less than 10 kg and between 10 and 100 kg, respectively. While these satellites can be deployed individually, they can also be operated as part of a constellation, a large group of satellites interconnected to provide a service, such as the Starlink satellite constellation's offering of global internet connectivity. According to Euroconsult, the smallsat manufacturing market, which was valued at $15.5 billion over 2012-2021, is set to grow by +258% to $55.6 billion over 2022-2031, driven by the multiplication of constellation projects from both commercial and government stakeholders. The next decade will be defined primarily by the rollout of multiple constellation projects, which will account for 81% of smallsats, mainly for commercial operators. A total of 3,335 smallsats <10 kg are expected to launch throughout the next decade, i.e., more than twice the 1,656 launched over 2012-2021. Satellites in this category, especially cubesats, have gained momentum recently: 1,187 were launched in the past 5 years alone.

The growth in the LEO satellite constellations market is being driven by technological advances in ground equipment, new business models, expanded funding, and growing demand for high bandwidth and lower latency. Though this satellite constellations market remains nascent in maturity, we anticipate considerable growth over the coming years in the launch industry as companies continue to seek versatile and low-cost ways to deliver single satellites to specific orbits or deploy their satellite constellations. Furthermore, we anticipate the growth of the satellite constellations market to contribute business to our Satellite Services offerings. LEO satellite constellations have relatively short lifespans on orbit, resulting in a requirement to launch replenishment satellites every few years.

Results of Operations

The following table provides certain selected financial information for the periods presented:

Three Months Ended September 30, 2023 compared to the Three Months Ended September 30, 2022

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change	%
Revenue	$ 985,520	$ 1,317,247	$ (331,727)	(25%)
Cost of revenue	1,081,801	1,402,870	(321,069)	(23%)
Gross Profit (Loss)	(96,281)	(85,623)	(10,658)	12%
Gross Profit (Loss) Percentage	(10%)	(7%)		
Operating expense	3,778,460	3,789,795	(11,335)	(0%)
Other income (expense)	(207,344)	(50,880)	(156,464)	308%
Net loss	$ (4,082,085)	$ (3,926,298)	$ (155,787)	4%

Revenue

Non-related party revenue decreased 40% for the 3 months ended September 30, 2023 to approximately $760,000 as compared to approximately $1.3 million for the 3 months ended September 30, 2022, which was primarily driven by timing of fixed price milestone contracts which drove higher revenue for the three months ended September 30, 2022. Related party revenue for the quarter was up 290% to approximately $223,000 versus approximately $57,000 for the three months ended June 30, 2022. This was driven by the mix and increased number of higher value contracts that were outsourced to us.

Cost of Revenue

Cost of revenue decreased 23% for the three months ended September 30, 2023 to approximately $1.1 million as compared to approximately $1.4 million for the three months ended September 30, 2022 and included $71,500 related party cost of sales as of September 30, 2023 and approximately $13,000 as of September 30, 2022. The decrease in cost of revenue was in line with the decrease in sales and was driven by decreased materials and other direct costs as a percentage of revenue. As a manufacturing entity, materials and other direct costs are a percentage of revenue.

Gross Profit

The decrease in gross profit of approximately $10,700 to a gross profit of approximately $96,300 for the three months ended September 30, 2023 as compared with gross profit of approximately $85,600 for the three months ended September 30, 2022. As a percentage of revenue, gross margin decreased at a lower rate versus sales due to the mix of higher value contracts and an increase in our higher margin satellite side of the business.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses remained materially consistent when compared with the same period in 2022, a slight decrease year over year was primarily due to the following:

- A decrease of $160,300 in D&O insurance to $248,400 compared to $408,700 in 2022 was due to a reduction in insurance rates.
- A decrease of $106,900 in licenses related to our satellite side of our business to $57,700 compared to $49,200 in 2022 primarily related to a change in estimate that extended the service period and reduced period expense.
- A decrease of $86,000 in fundraising expenses to $27,500 compared to $113,500 in 2022 was due to timing of our capital raise.

These decreases were offset primarily by the following increases:

- An increase of $210,000 in non-manufacturing employee expenses to $1.85 million compared to $1.64 million in 2022 as a result of expansion of our staff to support the needs of the business.
- An increase of $48,200 in employee programs to $75,000 compared to $26,800 in 2022 primarily to assist employees with transition.
- An increase of $40,100 in professional fees to $721,700 compared to $681,600 in 2022 due to legal costs related to various corporate matters, fundraising, and acquisition of Exo-Space.

Total other income (expenses)

Other income and (expenses) showed an increase of other expenses of $156,400 to $207,300 compared to $50,900 in 2022 primarily due to increased accrued interest for short term debt due in Q4.

Nine Months Ended September 30, 2023 compared to the Nine Months Ended September 30, 2022

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Change	%
Revenue	$ 4,619,556	$ 4,963,945	$ (344,389)	(7%)
Cost of revenue	3,312,261	3,724,467	(412,206)	(11%)
Gross Profit (Loss)	1,307,295	1,239,478	67,817	5%
Gross Profit Percentage	28%	25%		
Operating expense	10,881,111	9,778,757	1,102,354	11%
Other expense	(1,450,909)	(175,208)	(1,275,701)	728%
Net loss	$ (11,024,725)	$ (8,714,487)	$ (2,310,238)	27%

Revenue

Total revenue for the nine months ended September 30, 2023 decreased $344,000 compared to total revenue for the nine months ended September 30, 2022. Non-related party revenue decreased by 6% for the nine months ended September 30, 2023 to approximately $3.9 million as compared to approximately $4.1 million for the nine months ended September 30, 2022 and was primarily driven by the timing of fixed price milestone contracts offset by satellite payload revenue. Related party revenue for the year decreased 11% to approximately $767,000 for the nine months ended September 30, 2023 versus approximately $864,000 for the nine months ended September 30, 2022 and was driven by timing of fixed price milestone contracts our related party entered into and outsourcing less of its work to us.

Cost of Revenue

Cost of revenue decreased 11% for the nine months ended September 30, 2023 to approximately $3.3 million as compared to approximately $2.3 million for the nine months ended September 30, 2022 and included approximately $741,700 related party cost of sales as of September 30, 2023 and approximately $417,200 as of September 30, 2022. The decrease was primarily driven by mix of contracts and an increase in our higher margin satellite related business that helped to offset continued increased supply chain related costs in the manufacturing side of our business.

Gross Profit

The 5% increase in our gross margin for the nine months ended September 30, 2023 to approximately $1.3 million as compared to approximately $1.2 million for the nine months ended September 30, 2022 is driven by the increase in our higher margin satellite business.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased by approximately 11% for the nine months ended September 30, 2023 when compared with the same period in 2022, an increase of $1.1 million year over year and was primarily driven by the following:

- An increase of $1.6 million in employee expenses to $5.4 million compared to $3.8 million in 2022 as a result of expansion of our staff to support the needs of the business.
- An increase of $291,000 in research and development costs to $317,000 compared to $26,000 in 2022 was due to the development of LizzieSat and LizzieSat – GSE projects during 2023
- An increase of $150,000 in software expense to $302,300 compared to $152,300 in 2022 due to increased development of programs to support business.
- An increase of $101,000 bank fees to $101,000 compared to $0 in 2022 due to asset based financing.

These increases were partially offset by the following:

- A decrease of $546,000 in professional fees to $1.6 million compared to approximately $2.1 million in 2022. This was the result of a 2022 $1.2 million one-time charge in stock-based consulting fees for investor relations, partially offset by 2023 increased legal expenses related to various corporate matters, fundraising, and the acquisition of Exo-Space
- A decrease of $481,000 in D&O insurance to $745,000 compared to approximately $1.2 million in 2022 was due to a reduction in insurance rates.

Total other income (expenses)

For the nine months ended September 30, 2023, Other income and (expenses) increased approximately $1.3 million to approximately $1.45 million compared to approximately $175,000 in 2022 relating to the following:

- An increase of approximately $807,000 in financing expenses compared to $0 in 2022 due from warrants outstanding related to underwriter compensation.
- An increase of approximately $386,000 in other expenses to approximately $541,100 compared to approximately $155,200 in 2022 primarily due to short term debt due in Q4 2023.

NON-GAAP MEASURES

To provide investors with additional information in connection with our results as determined in accordance with GAAP, we use non-GAAP measures of adjusted EBITDA. We use adjusted EBITDA in order to evaluate our operating performance and make strategic decisions regarding future direction of the company since it provides a meaningful comparison to our peers using similar measures. We define adjusted EBITDA as net income (as determined by U.S. GAAP) adjusted for interest expense, depreciation and amortization expense, acquisition deal costs, severance costs, capital market and advisory fees, equity-based compensation and warrant costs. These non-GAAP measures may be different from non-GAAP measures made by other companies since not all companies will use the same measures. Therefore, these non-GAAP measures should not be considered in isolation or as a substitute for relevant U.S. GAAP measures and should be read in conjunction with information presented on a U.S. GAAP basis.

The following table reconciles adjusted EBITDA to net loss (the most comparable GAAP measure) for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,			
	2023	2022	Change	%
Net Income / (Loss)	$ (4,082,085)	(3,926,298)	$ (155,787)	4%
Interest Expense (i)	186,282	50,880	135,402	266%
Depreciation and Amortization	68,781	80,235	(11,454)	(14%)
Acquisition Deal Costs (ii)	220,632	-	220,632	-
Severance Costs	75,000	26,769	48,231	180%
Capital Market and advisory fees (iii)	302,213	737,958	(435,745)	(59%)
Equity based compensation	38,275	-	38,275	-
Total Non-GAAP Adjustments	891,183	895,842	(4,659)	(1%)
Adjusted EBITDA	(3,190,902)	(3,030,456)	(160,446)	5%

(i) Sidus Space incurred increased interest expense due to short-term note payable becoming due in Q4 2023 and interest expense related to an asset based loan.

(ii) Sidus Space incurred one-time legal costs associated with the acquisition of Exo-Space, an Artificial Intelligence (AI) company.

(iii) Sidus Space incurred one-time stock issuance costs in 2023 and 2022, respectively

The following table reconciles adjusted EBITDA to net loss (the most comparable GAAP measure) for the nine months ended September 30 2023, and 2022:

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Change	%
Net Income / (Loss)	$ (11,024,725)	(8,714,487)	$ (2,310,238)	27%
Interest Expense (i)	561,476	175,208	386,268	220%
Depreciation and Amortization	148,166	238,859	(90,693)	(38%)
Acquisition Deal Costs (ii)	220,632	-	220,632	-
Severance Costs	75,000	26,769	48,231	180%
Capital Market and advisory fees (iii)	634,129	746,284	(112,155)	(15%)
Equity based compensation (iv)	38,275	1,209,000	(1,170,725)	(97%)
Warrant costs underwriter (v)	806,754	-	806,754	-
Total Non-GAAP Adjustments	2,484,432	2,396,120	88,312	4%
Adjusted EBITDA	(8,540,293)	(6,318,367)	(2,221,926)	35%

(i) Sidus Space incurred increased interest expense due to short-term note payable becoming due in Q4 2023 and interest expense related to an asset based loan.

(ii) Sidus Space incurred one-time legal costs associated with the acquisition of Exo-Space, an Artificial Intelligence (AI) company.

(iii) Sidus Space incurred one-time stock issuance costs in 2023 and 2022, respectively.

(iv) Sidus Space issued stock based compensation for services rendered in 2023 and 2022, respectively.

(v) Sidus Space incurred one-time costs related to underwriter warrants during 2023.

Liquidity and Capital Resources

The following table provides selected financial data about us as of September 30, 2023, and December 31, 2022.

	September 30, 2023	December 31, 2022	Change	%
Current assets	$ 9,862,688	$ 7,449,868	$ 2,412,820	32%
Current liabilities	$ 9,272,626	$ 6,359,052	$ 2,913,574	46%
Working capital (deficiency)	$ 590,062	$ 1,090,816	$ (500,754)	(46%)

We had an accumulated deficit of approximately $39.3 million and working capital of approximately $590,000 as of September 30, 2023 compared to accumulated deficit of approximately $28.3 million and working capital of approximately $1.1 million as of December 31, 2022. As of September 30, 2023, we had approximately $1.6 million of cash compared to approximately $2.3 million of cash as of December 31, 2022.

As of September 30, 2023, the working capital surplus is due to funds raised through equity sales in relation to our public offering in April 2023. As of December 31,2022, the working capital surplus was due to funds raised through financing in relation to our equity line of credit.

Current assets increased by approximately $2.4 million to approximately $9.8 million as of September 30, 2023 from approximately $7.4 million as of December 31, 2022. The increase is primarily attributable to an increased level of prepaids primarily related to our satellite services and licenses.

Current liabilities increased by approximately $2.9 million to approximately $9.3 million as of September 30, 2023 from approximately $6.4 million as of December 31, 2022. The increase was primarily the result of increased accounts payable and other current liabilities and our short-term note payable.

On October 11, 2023, we entered into a securities purchase agreement (the “Purchase Agreement”) with certain institutional investors, pursuant to which we agreed to issue and sell to such investor, in a registered direct offering (the “Offering”), an aggregate of 2,000 shares of our Series A convertible preferred stock, par value $0.0001 per share and stated value of $1,000 per share (the “Series A Preferred Stock”) at an offering price of $1,000 per share. Each share of Series A Preferred Stock is convertible into shares of our Class A Common Stock at an initial conversion price of 0.10152 per share (the “Conversion Price”). The Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a “full ratchet” basis, in the event of any issuances of Common Stock, or securities convertible, exercisable or exchangeable for Common Stock, at a price below the then-applicable Conversion Price (subject to certain exceptions). The Series A Preferred Stock (and the shares of our Class A common stock (the “Class A Common Stock”)) underlying the Series A Preferred Stock) were offered by us pursuant to its shelf registration statement on Form S-3 (File No. 333-273430), which was originally filed with the Securities and Exchange Commission (the “SEC”) on July 26, 2023 and declared effective by the SEC on August 14, 2023. Concurrently with the sale of the Series A Preferred Stock, pursuant to the Purchase Agreement in a concurrent private placement, for each share of Class A Common Stock issuable upon conversion of the Series A Preferred Stock purchased by the investor, such investor received from us an unregistered warrant (the “Warrant”) to purchase one share of Class A Common Stock (the “Warrant Shares”). Each Warrant will be exercisable for one share of our Class A Common Stock at an exercise price of $0.10152 per share, will be exercisable immediately upon issuance, and will have a term of five years from the date of issuance. The exercise price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a “full ratchet” basis, in the event of any issuances of Class A Common Stock, or securities convertible, exercisable or exchangeable for Class A Common Stock, at a price below the then-applicable exercise price (subject to certain exceptions).

Cash Flow

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Change	%
Cash used in operating activities	$ (9,954,980)	$ (9,827,748)	$ (127,232)	1%
Cash used in investing activities	$ (5,304,912)	$ (1,425,623)	$ (3,879,289)	272%
Cash provided by financing activities	$ 14,561,964	$ 1,901,577	$ 12,660,387	666%
Cash on hand	$ 1,597,331	$ 4,359,051	$ (2,761,720)	(63%)

Cash Flow from Operating Activities

Nine Months ended September 30, 2023 and 2022

For the nine months ended September 30, 2023 and 2022, we did not generate positive cash flows from operating activities. For the nine months ended September 30, 2023, net cash flows used in operating activities was approximately $9.9 million compared to approximately $9.8 million during the three months ended September 30, 2022.

Cash flows used in operating activities for the nine months ended September 30, 2023 of approximately $9.9 million is comprised of a net loss of approximately $11.0 million, which was reduced by non-cash expenses of $806,754 for the issuance of warrants as compensation of underwriters services, $38,275 for stock based compensation, $15,000 bad debt and $148,166 for depreciation and amortization, and a decrease in net change in working capital of $61,550.

Cash flows used in operating activities for the nine months ended September 30, 2022 is comprised of a net loss of approximately $8.7 million, which was reduced by non-cash expenses of $1.2 million for one-time stock-based consulting fees and approximately $239,000 for depreciation and amortization, and an increase in net change in working capital of approximately $2.56 million.

Cash Flows from Investing Activities

During the nine months ended September 30, 2023, we purchased property and equipment in the amount of approximately $5.3 million with approximately $468,000 related to Exo-Space acquisition and approximately $4.8 million primarily related to the satellite side of our business.

During the nine months ended September 30, 2022, we purchased property and equipment in the amount of approximately $1.4 million primarily related to the satellite side of our business.

Cash Flows from Financing Activities

During the nine months ended September 30, 2023, net cash provided in financing activities of approximately $14.5 million included our January 2023 and April 2023 capital raises of approximately $14.8 million net proceeds, partially offset by approximately $2,200 net repayment of an asset-based loan agreement and repayment of notes payable of approximately $224,000.

During the nine months ended September 30, 2022, net cash provided in financing activities of approximately $1.9 million included $3.1 million in net proceeds from issuance of common stock and payments of approximately $148,000 to pay off our finance leases, repayments of notes payable of approximately $214,000 and repayments of notes payable – related party to Craig Technical Consulting, Inc., our principal stockholder, of $797,500.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

Critical Accounting Policies and Significant Judgments and Estimates

This discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are described in more detail in the notes to our financial statements included elsewhere in this annual report on Form 10-K, we believe that the following accounting policies are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management’s judgments and estimates.

We believe our most critical accounting policies and estimates relate to the following:

- Revenue Recognition
- Inventory
- Credit losses
- Lease Accounting
- Stock-based compensation
- Warrant valuation

Revenue Recognition

Our revenue is recognized under Topic 606 in a manner that reasonably reflects the delivery of our services and products to customers in return for expected consideration and includes the following elements:

- executed contracts with our customers that we believe are legally enforceable;
- identification of performance obligations in the respective contract;
- determination of the transaction price for each performance obligation in the respective contract;
- Allocation of the transaction price to each performance obligation; and
- recognition of revenue only when we satisfy each performance obligation.

These five elements, as applied to each our revenue category, are summarized below:

Revenues from fixed price contracts that are still in progress at month end are recognized on the percentage-of-completion method, measured by the percentage of total costs incurred to date to the estimated total costs for each contract. This method is used because management considers total costs to be the best available measure of progress on these contracts. Revenue from fixed price contracts and time-and-materials contracts that are completed in the month the work was started are recognized when the work is shipped. To achieve this core principle, we apply the following five steps: identify the contract with the client, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to performance obligations in the contract and recognize revenues when or as we satisfy a performance obligation.

Revenues from fixed price service contracts that contain provisions for milestone payments are recognized at the time of the milestone being met and payment received. This method is used because management considers that the payments are non-refundable unless the entity fails to perform as promised. If the customer terminates the contract we are entitled only to retain any progress payments received from the customer and we have no further rights to compensation from the customer. Even though the payments made by the customer are non-refundable, the cumulative amount of those payments is not expected, at all times throughout the contract, to at least correspond to the amount that would be necessary to compensate us for performance completed to date. Accordingly, we account for the progress under the contract as a performance obligation satisfied at a point in time. To achieve this core principle, we apply the following five steps: identify the contract with the client, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to performance obligations in the contract and recognize revenues when or as we satisfy a performance obligation.

Inventory

Inventory consists of work in progress and consists of estimated revenue calculated on a percentage of completion based on direct labor and materials in relation to the total contract value.

Credit Losses

The provision for expected credit losses on trade receivables are estimated based on historical information, customer solvency and changes in customer payment terms and practices. The Company will calibrate its provision matrix to adjust the historical credit loss experience with forward-looking information. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. The Company’s historical credit loss experience and forecast of economic conditions may also not be representative of the customer’s actual default in the future. The company will utilize the Allowance Method based on the accounts receivable aging in order to accrue bad debt expense.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases in the balance sheet. Additionally, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) – Targeted Improvements, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liabilities - current, and operating lease liabilities - noncurrent on the balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Leases with a lease term of 12 months or less at inception are not recorded on our balance sheet and are expensed on a straight-line basis over the lease term in our statement of operations.

JOBS Act

On April 5, 2012, the Jumpstart Our Business Startups Act (the "JOBS Act") was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

We have chosen to take advantage of the extended transition periods available to emerging growth companies under the JOBS Act for complying with new or revised accounting standards until those standards would otherwise apply to private companies provided under the JOBS Act. As a result, our financial statements may not be comparable to those of companies that comply with public company effective dates for complying with new or revised accounting standards.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, as an "emerging growth company," we intend to rely on certain of these exemptions, including without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board ("PCAOB") regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1.07 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of the completion of this offering; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is not required to provide the information required by this Item as it is a “smaller reporting company,” as defined in Rule 12b-2 of the Exchange Act.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. Litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS.

Risk factors that affect our business and financial results are discussed in Part I, Item 1A “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2022 (“Annual Report”). There have been no material changes in our risk factors from those previously disclosed in our Annual Report. You should carefully consider the risks described in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description
3.1	Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to Form 8-K filed on October 13, 2023)
3.2	Amendment No. 2 to Amended and Restated Bylaws of Sidus Space, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K filed on October 13, 2023)
4.1	Form of Warrant (incorporated by reference to Exhibit 4.1 to Form 8-K filed on October 13, 2023)
4.2	Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.2 to Form 8-K filed on October 13, 2023)
10.1	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 13, 2023)
10.2	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 13, 2023)
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
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 - the cover page from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 is formatted in Inline XBRL
*	Filed herewith.

SIGNATURES

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

	SIDUS SPACE, INC.
Date: November 14, 2023	By: */s/ Carol Craig*
	Carol Craig
	Chief Executive Officer
	(Principal Executive Officer)
Date: November 14, 2023	By: */s/ Teresa Burchfield*
	Teresa Burchfield
	Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 31.1

Certification of Chief Executive Officer of Sidus Space, Inc.

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Carol Craig, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sidus Space, Inc.;

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

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

4. The registrant's other certifying officer 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 15(d)-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: May 20, 2024

Date: November 14, 2023

/s/ Carol Craig

Carol Craig
Chief Executive Officer (Principal
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer of Sidus Space, Inc.

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Teresa Burchfield, Bill White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sidus Space, Inc.;

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

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

4. The registrant's other certifying officer 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 15(d)-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 14, 2023 May 20, 2024	*/s/ Teresa Burchfield Bill White*
	Teresa Burchfield Bill White Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Carol Craig, Chief Executive Officer of Sidus Space, Inc. (the "Company"), hereby certifies that based on the undersigned's knowledge:

1. The Company's quarterly report on Form 10-Q for the period ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 14, 2023 May 20, 2024	*/s/ Carol Craig*
	Carol Craig

Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Teresa Burchfield, Bill White, Chief Financial Officer of Sidus Space, Inc. (the "Company"), hereby certifies that based on the undersigned's knowledge:

1. The Company's quarterly report on Form 10-Q for the period ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 14, 2023 May 20, 2024

/s/ *Teresa Burchfield Bill White*

Teresa Burchfield Bill White
Chief Financial Officer
(Principal Financial and Accounting Officer)

DISCLAIMER

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