UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

Commission file number 001-39668

Archer Aviation Inc.

(Exact name of registrant as specified in its charter)

Delaware	**85-2730902**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
190 West Tasman Drive, San Jose, CA	**95134**
(Address of principal executive offices)	(Zip Code)

(650) 272-3233

Registrant's telephone number, including area code

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value $0.0001 per share	ACHR	New York Stock Exchange
Warrants, each whole warrant exercisable for one share of Class A common stock at an exercise price of $11.50 per share	ACHR WS	New York Stock Exchange

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 and posted 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 Act). Yes ☐ No ☒

As of November 6, 2023, the number of shares of the registrant’s Class A common stock outstanding was 254,266,961, and the number of shares of the registrant’s Class B common stock outstanding was 46,510,746.

Archer Aviation Inc.
For 10-Q
For the Quarterly Period Ended September 30, 2023

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Quarterly Report") contains forward-looking statements. All statements, other than statements of present or historical fact, included or incorporated by reference in this Quarterly Report regarding our future financial performance, as well as our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words "anticipate," "believe," "continue," "could," "estimate," "expect," "future," "intends," "may," "might," "plan," "possible," "potential," "predict," "project," "seek," "should," "will," "would," the negative of such terms and other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

These forward-looking statements are based on information available as of the date of this Quarterly Report, and current expectations, assumptions, hopes, beliefs, intentions and strategies regarding future events. Accordingly, forward-looking statements in this Quarterly Report and in any document incorporated herein by reference should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Some factors that could cause actual results to differ include those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on March 15, 2023 (the "Annual Report") and in Part II, Item 1A, "Risk Factors" in the Quarterly Report on Form 10-Q filed with the SEC on August 10, 2023 (the "Q2 10-Q"). Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report, the Annual Report, the Q2 10-Q, and other documents we file from time to time with the SEC that disclose risks and uncertainties that may affect our business. Moreover, new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks and uncertainties, the future events and circumstances discussed in this Quarterly Report and the Annual Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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

As used herein, "Archer," "the Company," "Registrant," "we," "us," "our," and similar terms include Archer Aviation Inc. and its subsidiaries, unless the context indicates otherwise.

"Archer" and our other registered and common law trade names and trademarks of ours appearing in this Quarterly Report are our property. This Quarterly Report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

Part I - Financial Information

Item 1. Financial Statements

Archer Aviation Inc.
Consolidated Condensed Balance Sheets
(In millions, except share and per share data; unaudited)

	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 461.4	$ 69.4
Restricted cash	7.3	2.9
Short-term investments	—	461.8
Prepaid expenses	3.9	9.8
Other current assets	3.1	1.6
Total current assets	475.7	545.5
Property and equipment, net	49.9	11.5
Intangible assets, net	0.4	0.4
Right-of-use assets	9.5	11.9
Other long-term assets	4.1	4.5
Total assets	$ 539.6	$ 573.8
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 15.6	$ 3.6
Current portion of lease liabilities	2.9	3.7
Notes payable	2.3	9.3
Accrued expenses and other current liabilities	96.2	36.7
Total current liabilities	117.0	53.3
Lease liabilities, net of current portion	13.5	9.2
Warrant liabilities	32.8	7.0
Other long-term liabilities	11.8	11.0
Total liabilities	175.1	80.5
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of September 30, 2023 and December 31, 2022	—	—
Class A common stock, $0.0001 par value; 700,000,000 shares authorized; 239,254,975 and 177,900,738 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Class B common stock, $0.0001 par value; 300,000,000 shares authorized; 46,190,423 and 63,738,197 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Additional paid-in capital	1,404.2	1,185.0
Accumulated deficit	(1,039.7)	(690.9)
Accumulated other comprehensive loss	—	(0.8)
Total stockholders' equity	364.5	493.3
Total liabilities and stockholders' equity	$ 539.6	$ 573.8

See accompanying notes to consolidated condensed financial statements.

Archer Aviation Inc.
Consolidated Condensed Statements of Operations
(In millions, except share and per share data; unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating expenses				
Research and development	$ 67.8	$ 47.0	$ 196.9	$ 112.3
General and administrative (Note 9)	(21.6)	40.8	140.6	121.0
Other warrant expense	—	6.0	2.1	6.0
Total operating expenses	46.2	93.8	339.6	239.3
Loss from operations	(46.2)	(93.8)	(339.6)	(239.3)
Other (expense) income, net	(10.4)	1.3	(19.7)	15.8
Interest income, net	5.1	1.5	10.8	1.6
Loss before income taxes	(51.5)	(91.0)	(348.5)	(221.9)
Income tax expense	(0.1)	—	(0.3)	—
Net loss	$ (51.6)	$ (91.0)	$ (348.8)	$ (221.9)
Net loss per share, basic and diluted	$ (0.19)	$ (0.38)	$ (1.35)	$ (0.93)
Weighted-average shares outstanding, basic and diluted	277,683,468	240,252,605	258,770,262	239,374,195

See accompanying notes to consolidated condensed financial statements.

Archer Aviation Inc.
Consolidated Condensed Statements of Comprehensive Loss
(In millions; unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Net loss	$ (51.6)	$ (91.0)	$ (348.8)	$ (221.9)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net of tax	—	(1.2)	0.8	(1.2)
Comprehensive loss	$ (51.6)	$ (92.2)	$ (348.0)	$ (223.1)

See accompanying notes to consolidated condensed financial statements.

Archer Aviation Inc.
Consolidated Condensed Statements of Stockholders' Equity
(In millions, except share data; unaudited)

	Common Stock				Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Class A		Class B					
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2022	177,900,738	$ —	63,738,197	$ —	$ 1,185.0	$ (690.9)	$ (0.8)	$ 493.3
Conversion of Class B common stock to Class A common stock	2,250,000	—	(2,250,000)	—	—	—	—	—
Issuance of restricted stock units and restricted stock expense	2,191,898	—	—	—	18.8	—	—	18.8
Exercise of stock options	316,116	—	233,190	—	0.1	—	—	0.1
Issuance of warrants and warrant expense	—	—	—	—	6.3	—	—	6.3
Common stock withheld related to net share settlement of equity awards	(786,342)	—	—	—	(2.3)	—	—	(2.3)
Stock-based compensation	—	—	—	—	6.3	—	—	6.3
Net loss	—	—	—	—	—	(113.1)	—	(113.1)
Other comprehensive income	—	—	—	—	—	—	0.7	0.7
Balance as of March 31, 2023	181,872,410	$ —	61,721,387	$ —	$ 1,214.2	$ (804.0)	$ (0.1)	$ 410.1
Conversion of Class B common stock to Class A common stock	14,109,310	—	(14,109,310)	—	—	—	—	—
Issuance of restricted stock units and restricted stock expense	1,834,274	—	—	—	16.2	—	—	16.2
Exercise of stock options	306,003	—	233,192	—	0.1	—	—	0.1
Issuance of warrants and warrant expense	—	—	—	—	4.5	—	—	4.5
Common stock withheld related to net share settlement of equity awards	(592,025)	—	—	—	(1.2)	—	—	(1.2)
Common stock issued under employee stock purchase plan	601,105	—	—	—	1.3	—	—	1.3
Common stock issued under stock purchase agreement	6,337,039	—	—	—	21.4	—	—	21.4
Stock-based compensation	—	—	—	—	7.9	—	—	7.9
Net loss	—	—	—	—	—	(184.1)	—	(184.1)
Other comprehensive income	—	—	—	—	—	—	0.1	0.1
Balance as of June 30, 2023	204,468,116	$ —	47,845,269	$ —	$ 1,264.4	$ (988.1)	$ —	$ 276.3
Conversion of Class B common stock to Class A common stock	1,888,036	—	(1,888,036)	—	—	—	—	—
Issuance of Class A common stock	1,985,559	—	—	—	11.0	—	—	11.0
Issuance of restricted stock units and restricted stock expense	1,527,815	—	—	—	(49.8)	—	—	(49.8)
Exercise of stock options	269,385	—	233,190	—	0.1	—	—	0.1

Consolidated Condensed Statements of Stockholders' Equity, continued

Issuance of warrants and warrant expense	—	—	—	—	30.8	—	—	30.8
Exercise of warrants	2,942,778	—	—	—	—	—	—	—
PIPE financing	26,173,286	—	—	—	139.0	—	—	139.0
Stock-based compensation	—	—	—	—	8.7	—	—	8.7
Net loss	—	—	—	—	—	(51.6)	—	(51.6)
Other comprehensive loss	—	—	—	—	—	—	—	—
Balance as of September 30, 2023	239,254,975	$ —	46,190,423	$ —	$ 1,404.2	$ (1,039.7)	$ —	$ 364.5

See accompanying notes to consolidated condensed financial statements.

Archer Aviation Inc.
Consolidated Condensed Statements of Stockholders' Equity
(In millions, except share data; unaudited)

	Common Stock							
	Class A		Class B					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2021	162,789,591	$ —	74,937,945	$ —	$ 1,072.5	$ (373.6)	$ —	$ 698.9
Conversion of Class B common stock to Class A common stock	1,757,980	—	(1,757,980)	—	—	—	—	—
Issuance of restricted stock units and restricted stock expense	300,014	—	—	—	16.0	—	—	16.0
Exercise of stock options	353,640	—	399,621	—	0.1	—	—	0.1
Issuance of warrants and warrant expense	—	—	—	—	1.2	—	—	1.2
Stock-based compensation	—	—	—	—	6.7	—	—	6.7
Net loss	—	—	—	—	—	(59.2)	—	(59.2)
Balance as of March 31, 2022	165,201,225	$ —	73,579,586	$ —	$ 1,096.5	$ (432.8)	$ —	$ 663.7
Conversion of Class B common stock to Class A common stock	4,190,561	—	(4,190,561)	—	—	—	—	—
Issuance of restricted stock units and restricted stock expense	992,006	—	—	—	17.9	—	—	17.9
Exercise of stock options	341,987	—	1,342,726	—	0.2	—	—	0.2
Issuance of warrants and warrant expense	—	—	—	—	1.6	—	—	1.6
Cancellation of Class B common stock (Note 9)	—	—	(5,002,306)	—	—	—	—	—
Stock-based compensation	—	—	—	—	6.5	—	—	6.5
Net loss	—	—	—	—	—	(71.7)	—	(71.7)
Balance as of June 30, 2022	170,725,779	$ —	65,729,445	$ —	$ 1,122.7	$ (504.5)	$ —	$ 618.2
Conversion of Class B common stock to Class A common stock	1,182,629	—	(1,182,629)	—	—	—	—	—
Issuance of restricted stock units and restricted stock expense	1,568,279	—	—	—	18.4	—	—	18.4
Exercise of stock options	334,978	—	233,190	—	0.1	—	—	0.1
Issuance of warrants and warrant expense	—	—	—	—	6.4	—	—	6.4
Stock-based compensation	—	—	—	—	6.3	—	—	6.3
Net loss	—	—	—	—	—	(91.0)	—	(91.0)
Other comprehensive loss	—	—	—	—	—	—	(1.2)	(1.2)
Balance as of September 30, 2022	173,811,665	$ —	64,780,006	$ —	$ 1,153.9	$ (595.5)	$ (1.2)	$ 557.2

See accompanying notes to consolidated condensed financial statements.

Archer Aviation Inc.
Consolidated Condensed Statements of Cash Flows
(In millions; unaudited)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities		
Net loss	$ (348.8)	$ (221.9)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and other	4.2	2.7
Debt discount and issuance cost amortization	0.5	0.4
Stock-based compensation	24.8	76.3
Change in fair value of warrant liabilities and other warrant costs	25.8	(14.4)
Gain on issuance of common stock	(3.6)	—
Non-cash lease expense	3.1	3.2
Research and development warrant expense	13.1	2.9
Other warrant expense	2.1	6.0
Technology and dispute resolution agreements expense	75.3	—
Interest income on short-term investments	—	(0.3)
Accretion and amortization income of short-term investments	(2.3)	(1.4)
Changes in operating assets and liabilities:		
Prepaid expenses	5.9	(3.2)
Other current assets	0.3	(0.5)
Other long-term assets	(0.1)	1.8
Accounts payable	10.3	1.5
Accrued expenses and other current liabilities	(1.6)	5.9
Operating lease right-of-use assets and lease liabilities, net	2.8	(2.5)
Other long-term liabilities	0.6	10.3
Net cash used in operating activities	(187.6)	(133.2)
Cash flows from investing activities		
Purchase of short-term investments	—	(487.6)
Proceeds from maturities of short-term investments	465.0	—
Purchase of property and equipment	(35.3)	(3.6)
Net cash provided by (used in) investing activities	429.7	(491.2)
Cash flows from financing activities		
Repayment of long-term debt	(7.5)	(7.5)
Payments for taxes related to net share settlement of equity awards	(3.5)	—
Proceeds from PIPE financing	145.0	—
Payment of offering costs in connection with PIPE financing	(6.0)	—
Proceeds from exercise of stock options	—	0.4
Proceeds from shares issued under employee stock purchase plan	1.3	—
Proceeds from issuance of common stock	25.0	—
Net cash provided by (used in) financing activities	154.3	(7.1)
Net increase (decrease) in cash, cash equivalents, and restricted cash	396.4	(631.5)
Cash, cash equivalents, and restricted cash, beginning of period	72.3	746.9
Cash, cash equivalents, and restricted cash, end of period	$ 468.7	$ 115.4
Supplemental Cash Flow Information:		
Cash paid for interest	$ 0.7	$ 1.2
Non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	$ 9.9	$ 3.2

See accompanying notes to consolidated condensed financial statements.

Note 1 - Organization and Nature of Business

Organization and Nature of Business

Archer Aviation Inc. (the “Company,” “we,” “us” or “our”), a Delaware corporation, with its headquarters located in San Jose, California, is an aerospace company. The Company is designing and developing electric vertical takeoff and landing (“eVTOL”) aircraft for use in urban air mobility (“UAM”) networks. The Company’s mission is to unlock the skies, freeing everyone to reimagine how they move and spend time.

The Company’s Planned Lines of Business

Upon receipt of all necessary Federal Aviation Administration (“FAA”) certifications and any other government approvals necessary for the Company to manufacture and operate its aircraft, the Company intends to operate two complementary lines of business. The Company’s core focus is direct-to-consumer offerings (“Archer UAM”) with its secondary focus being business-to-business offerings (“Archer Direct”).

Archer UAM

The Company plans to operate its own UAM ecosystem initially in select major U.S. cities. The Company’s UAM ecosystem will operate using its eVTOL aircraft, which is currently in development.

Archer Direct

The Company also plans to selectively sell a certain amount of its eVTOL aircraft to third parties.

Note 2 - Liquidity and Going Concern

Since the Company’s formation, the Company has devoted substantial effort and capital resources to the design and development of its planned eVTOL aircraft and UAM network. Funding of these activities has primarily been through the net proceeds received from the issuance of related and third-party debt (Note 6), and the sale of preferred and common stock to related and third parties (Note 8). Through September 30, 2023, the Company has incurred cumulative losses from operations, negative cash flows from operating activities, and has an accumulated deficit of $1,039.7 million. As of September 30, 2023, the Company had cash and cash equivalents of $461.4 million, which management believes will be sufficient to fund the Company’s current operating plan for at least the next 12 months from the date these consolidated condensed financial statements were issued.

There can be no assurance that the Company will be successful in achieving its business plans, that the Company’s current capital will be sufficient to support its ongoing business plans, or that any additional financing will be available in a timely manner or on acceptable terms, if at all. If the Company’s business plans require it to raise additional capital, but the Company is unable to do so, it may be required to alter, or scale back its aircraft design, development and certification programs, as well as its manufacturing capabilities, or be unable to fund capital expenditures. Any such events would have a material adverse effect on the Company’s financial position, results of operations, cash flows, and ability to achieve the Company’s intended business plans.

Note 3 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the SEC for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, and cash flows for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The unaudited consolidated condensed financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the fiscal year ended December 31, 2022 set forth in the Company's Annual Report on Form 10-K filed with the SEC on March 15, 2023. The December 31, 2022 consolidated condensed balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP.

The Company has provided a discussion of significant accounting policies, estimates, and judgments in the Company's audited consolidated financial statements. There have been no changes to the Company's significant accounting policies since December 31, 2022 which are expected to have a material impact on the Company's financial position, results of operations, or cash flows.

Cash, Cash Equivalents, and Restricted Cash

Cash consists of cash on deposit with financial institutions. Cash equivalents consist of short-term, highly liquid financial instruments that are readily convertible to cash and have maturities of three months or less from the date of purchase. As of September 30, 2023 and December 31, 2022, the Company's cash and cash equivalents included money market funds of $400.4 million and $4.4 million, respectively.

Restricted cash consists primarily of cash held as security for the Company's standby letters of credit.Refer to Note 7 - Commitments and Contingencies for further details.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated condensed balance sheets that sum to amounts reported on the statements of cash flows (in millions):

	September 30, 2023	December 31, 2022
Cash and cash equivalents	$ 461.4	$ 69.4
Restricted cash	7.3	2.9
Total cash, cash equivalents, and restricted cash	$ 468.7	$ 72.3

Short-Term Investments

The Company had short-term investments in marketable securities with original maturities of less than one year, including U.S. Treasury securities, corporate debt securities and commercial paper. The Company classifies its marketable securities as available-for-sale at the time of purchase and reevaluates such classification at each balance sheet date. These marketable securities are carried at fair value, and unrealized gains and losses are recorded in other comprehensive loss in the consolidated condensed statements of comprehensive loss, which is reflected as a component of stockholders' equity. These marketable securities are assessed as to whether those with unrealized loss positions are other than temporarily impaired. The Company considers impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely the securities will be sold before the recovery of their cost basis. If the impairment is deemed other than temporary, the security is written down to its fair value and a loss is recognized in other income. Realized gains and losses from the sale of marketable securities and from declines in value deemed to be other than temporary are determined based on the specific identification method and recognized in other income, net in the consolidated condensed statements of operations.

Fair Value Measurements

The Company applies the provisions of Accounting Standards Codification ("ASC") 820,*Fair Value Measurement,* which defines a single authoritative definition of fair value, sets out a framework for measuring fair value and expands on required disclosures about fair value measurements. The provisions of ASC 820 relate to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring and nonrecurring basis. The standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The carrying amounts of the Company's cash, accounts payable, accrued compensation, and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 and indicate the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value (in millions):

	As of September 30, 2023			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash Equivalents:				
Money market funds	$ 400.4	$ —	$ —	$ 400.4
Liabilities:				
Warrant Liability – Public Warrants	$ 21.4	$ —	$ —	$ 21.4
Warrant Liability – Private Placement Warrants	$ —	$ —	$ 11.4	$ 11.4
Accrued technology and dispute resolutions agreements liability	$ —	$ —	$ 49.0	$ 49.0

	As of December 31, 2022			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash Equivalents:				
Money market funds	$ 4.4	$ —	$ —	$ 4.4
Short-Term Investments:				
U.S. Treasury securities	$ 316.6	$ —	$ —	$ 316.6
Corporate debt securities	$ —	$ 20.1	$ —	$ 20.1
Commercial paper	$ —	$ 125.1	$ —	$ 125.1
Liabilities:				
Warrant Liability – Public Warrants	$ 4.5	$ —	$ —	$ 4.5
Warrant Liability – Private Placement Warrants	$ —	$ —	$ 2.5	$ 2.5

Cash Equivalents

The Company's cash equivalents consist of short-term, highly liquid financial instruments that are readily convertible to cash and have maturities of three months or less from the date of purchase. The Company classifies its money market funds as Level 1, because they are valued based on quoted market prices in active markets.

Short-Term Investments

The Company's short-term investments consisted of high quality, investment grade marketable securities and were classified as available-for-sale. The Company classifies its investments in U.S. Treasury securities as Level 1, because they are valued using quoted market prices in active markets. The Company classifies its investments in corporate debt securities and commercial paper as Level 2, because they are valued using inputs other than quoted prices which are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security which may not be actively traded.

The following table presents a summary of the Company's cash equivalents and short-term investments as ofSeptember 30, 2023 and December 31, 2022 (in millions):

	As of September 30, 2023			
Description	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Cash Equivalents:				
Money market funds	$ 400.4	$ —	$ —	$ 400.4
Total	$ 400.4	$ —	$ —	$ 400.4

	As of December 31, 2022			
Description	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Cash Equivalents:				
Money market funds	$ 4.4	$ —	$ —	$ 4.4
Short-Term Investments:				
U.S. Treasury securities	317.4	—	(0.8)	316.6
Corporate debt securities	20.1	—	—	20.1
Commercial paper	125.1	—	—	125.1
Total	$ 467.0	$ —	$ (0.8)	$ 466.2

The unrealized losses related to the Company's short-term investments were primarily due to changes in interest rates and not due to increased credit risk or other valuation concerns. During the three and nine months ended September 30, 2023, the Company had no other-than-temporary impairments.

Public Warrants

The measurement of the public warrants as of September 30, 2023 is classified as Level 1 due to the use of an observable market quote in an active market under the ticker "ACHR WS." The quoted price of the publicwarrants was $1.23 per warrant as of September 30, 2023.

Private Placement Warrants

The Company utilizes a Monte Carlo simulation model for the private placement warrants at each reporting period, with changes in fair value recognized in the consolidated condensed statements of operations. The estimated fair value of the private placement warrant liability is determined using Level 3 inputs. Inherent in a binomial options pricing model and Monte Carlo simulation model are assumptions related to expected share-price volatility, expected life, risk-free interest rate, and dividend yield.

The key inputs into the Monte Carlo simulation model for the private placement warrants are as follows:

Input	**September 30, 2023**	**December 31, 2022**
Stock price	$ 5.06	$ 1.87
Strike price	$ 11.50	$ 11.50
Dividend yield	0.00 %	0.00 %
Term (in years)	2.96	3.71
Volatility	70.9 %	75.0 %
Risk-free rate	4.75 %	4.14 %

Accrued Technology and Dispute Resolution Agreements Liability

Under the Technology and Dispute Resolution Agreements, the Company recognized an accrued technology and dispute resolution agreements liability related to the unvested warrants for the Second Tranche (capitalized terms defined below). See Note 7 - Commitments and Contingencies for further details. The Company utilizes a Monte Carlo simulation model for the accrued technology and dispute resolution agreements liability at each reporting period, with changes in fair value recognized in the consolidated condensed statements of operations. The estimated fair value of the accrued technology and dispute resolution agreements liability is determined using Level 3 inputs. Inherent in a Monte Carlo simulation model are assumptions related to expected share-price volatility, expected life, risk-free interest rate, and dividend yield.

The key inputs into the Monte Carlo simulation model for the accrued technology and dispute resolution agreements liability are as follows:

Input	September 30, 2023
Stock price	$ 5.06
Strike price	$ 0.01
Dividend yield	0.00 %
Term (in years)	0.36
Volatility	98.0 %
Risk-free rate	5.4 %

The following table presents the change in fair value of the Company's Level 3 private placement warrants and accrued technology and dispute resolution agreements liability during the nine months ended September 30, 2023 (in millions):

Balance as of December 31, 2022	$ 2.5
Additions: accrued technology and dispute resolution agreements liability	49.0
Change in fair value	8.9
Balance as of September 30, 2023 [(1)]	$ 60.4

[(1)] As of September 30, 2023, $11.4 million and $49.0 million were recorded within warrant liabilities and accrued expenses and other current liabilities, respectively, in the consolidated condensed balance sheets.

In connection with changes in the fair value of the Company's public and private placement warrants, the Company recognized a loss of $10.2 million and $25.8 million within other (expense) income, net in the consolidated condensed statements of operations during the three and nine months ended September 30, 2023, respectively. Refer to Note 12 - Liability Classified Warrants for additional information about the public and private placement warrants.

In connection with the change in fair value of the accrued technology and dispute resolution agreements liability, the Company recognized a loss of $2.3 million within general and administrative expenses in the consolidated condensed statements of operations during each of the three and nine months ended September 30, 2023. Refer to Note 7 - Commitments and Contingencies for additional information about the accrued technology and dispute resolution agreements liability.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

Certain financial instruments, including debt, are not measured at fair value on a recurring basis in the consolidated condensed balance sheets. The fair value of debt as of September 30, 2023 approximates its carrying value (Level 2). Refer to Note 6 - Notes Payable for additional information.

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

Certain assets and liabilities are subject to measurement at fair value on a non-recurring basis if there are indicators of impairment or if they are deemed to be impaired as a result of an impairment review.

Intangible Assets, Net

Intangible assets consist solely of domain names and are recorded at cost, net of accumulated amortization, and if applicable, impairment charges. Amortization of domain names is provided over a 15-year estimated useful life on a straight-line basis or based on the pattern in which economic benefits are consumed, if reliably determinable. The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has analyzed a variety of factors to determine if any circumstance could trigger an impairment loss, and, at this time and based on the information presently known, does not believe that it is more likely than not that an impairment loss has been incurred.

As of each of September 30, 2023 and December 31, 2022, the net carrying amounts for the domain names were $0.4 million, respectively, and were recorded in the Company’s consolidated condensed balance sheets.

Cloud Computing Arrangements

The Company capitalizes certain implementation costs incurred in the application development stage of projects related to its cloud computing arrangements that are service contracts. Capitalized implementation costs are recognized in other long-term assets in the consolidated condensed balance sheets and amortized on a straight-line basis over the fixed, noncancellable term of the associated hosting arrangement plus any reasonably certain renewal periods. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. As of September 30, 2023 and December 31, 2022, the net carrying amounts of the Company’s capitalized cloud computing implementation costs were $3.6 million and $3.7 million, respectively.

Contract Liabilities

The Company records contract liabilities related to differences between the timing of cash receipts from the customer and the recognition of revenue. As of September 30, 2023 and December 31, 2022, our contract liability balances were $10.8 million and $10.0 million, respectively, and recorded in other long-term liabilities in the Company’s consolidated condensed balance sheets. As of September 30, 2023, our contract liabilities consisted of a $10.0 million pre-delivery payment received from United Airlines, Inc. under the terms of the Amended United Purchase Agreement (defined below) (see Note 9 - Stock-Based Compensation), and a $0.8 million payment received under a contract order with the United States Air Force for the design, development, and ground test of our production aircraft, Midnight.

Net Loss Per Share

Basic net loss per share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding. For all periods presented, the calculation of basic net loss per share excludes shares issued upon the early exercise of stock options where the vesting conditions have not been satisfied.

Because the Company reported net losses for all periods presented, diluted loss per share is the same as basic loss per share.

Contingently issuable shares, including equity awards with performance conditions, are considered outstanding common shares and included in the computation of basic net loss per share as of the date that all necessary conditions to earn the awards have been satisfied. Prior to the end of the contingency period, the number of contingently issuable shares included in diluted net loss per share is based on the number of shares, if any, that would be issuable under the terms of the arrangement at the end of the reporting period.

Because the Company reported net losses for all periods presented, all potentially dilutive common stock equivalents are antidilutive and have been excluded from the calculation of net loss per share. The diluted net loss per common share was the same for Class A and Class B common shares because they are entitled to the same liquidation and dividend rights.

The following table presents the number of antidilutive shares excluded from the calculation of diluted net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Options to purchase common stock	3,605,513	5,973,985	3,605,513	5,973,985
Unvested restricted stock units	34,348,088	44,908,284	34,348,088	44,908,284
Warrants	52,011,560	30,558,565	52,011,560	30,558,565
Shares issuable under the Employee Stock Purchase Plan (Note 9)	684,108	—	684,108	—
Total	90,649,269	81,440,834	90,649,269	81,440,834

Comprehensive Loss

Comprehensive loss includes all changes in equity during the period from non-owner sources. The Company’s comprehensive loss consists of its net loss and its unrealized gains or losses on available-for-sale securities.

Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2020, the Financial Accounting Standards Board issued ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. The ASU simplifies the accounting for convertible instruments by removing certain separation models in ASC 470-20, *Debt—Debt with Conversion and Other Options*, for convertible instruments. The ASU updates the guidance on certain embedded conversion features that are not required to be accounted for as derivatives under Topic 815, *Derivatives and Hedging*, or that do not result in substantial premiums accounted for as paid-in capital, such that those features are no longer required to be separated from the host contract. The convertible debt instruments will be accounted for as a single liability measured at amortized cost. Further, the ASU made amendments to the EPS guidance in Topic 260, *Earnings Per Share*, for convertible instruments, the most significant impact of which is requiring the use of the if-converted method for diluted EPS calculation, and no longer allowing the net share settlement method. The ASU also made revisions to Topic 815-40, which provides guidance on how an entity must determine whether a contract qualifies for a scope exception from derivative accounting. The amendments to Topic 815-40 change the scope of contracts that are recognized as assets or liabilities. The ASU is effective for public business entities, excluding smaller reporting companies, for interim and annual periods beginning after December 15, 2021, with early adoption permitted. For all other entities, the amendments are effective for interim and annual periods beginning after December 15, 2023. Adoption of the ASU can either be on a modified retrospective or full retrospective basis. The Company is currently evaluating the impact the adoption of this standard will have on its financial statements and related disclosures.

No other recently issued accounting pronouncements had or are expected to have a material impact on the Company’s financial statements.

Note 4 - Property and Equipment, Net

Property and equipment, net, consisted of the following (in millions):

	September 30, 2023	December 31, 2022
Furniture, fixtures, and equipment	$ 6.5	$ 1.5
Computer hardware	5.2	4.5
Computer software	0.9	0.7
Website design	0.8	0.7
Leasehold improvements	29.6	2.9
Construction in progress	14.1	4.8
Total property and equipment	57.1	15.1
Less: Accumulated depreciation	(7.2)	(3.6)
Total property and equipment, net	$ 49.9	$ 11.5

Construction in progress includes costs incurred for the Company's manufacturing facilities to be constructed in Covington, Georgia and other assets that have not yet been placed in service.

The following table presents depreciation expense included in each respective expense category in the consolidated condensed statements of operations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Research and development	$ 1.7	$ 0.8	$ 3.3	$ 1.7
General and administrative	0.1	0.2	0.4	0.6
Total depreciation expense	$ 1.8	$ 1.0	$ 3.7	$ 2.3

Note 5 - Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in millions):

	September 30, 2023	December 31, 2022
Accrued professional fees	$ 9.0	$ 17.2
Accrued employee costs	14.1	7.8
Accrued parts and materials	10.3	5.2
Taxes payable	0.9	0.3
Accrued capital expenditures	9.2	2.9
Accrued cloud computing implementation costs	0.9	2.0
Accrued marketing fees	—	0.2
Accrued technology and dispute resolution agreements liability (Note 7)	49.0	—
Other current liabilities	2.8	1.1
Total	$ 96.2	$ 36.7

Note 6 - Notes Payable

The Company's notes payable consisted of the following (in millions):

	September 30, 2023	December 31, 2022
Silicon Valley Bank ("SVB") Term Loans	$ 2.5	$ 10.0
Term Loans unamortized discount and loan issuance costs	(0.2)	(0.7)
Total debt, net of discount and loan issuance costs	2.3	9.3
Less current portion, net of discount and loan issuance costs	(2.3)	(9.3)
Total long-term notes payable, net of discount and loan issuance costs	$ —	$ —

SVB Loan

On July 9, 2021, the Company, as the borrower, entered into a Loan and Security Agreement (the "Loan and Security Agreement") with SVB and SVB Innovation Credit Fund VIII, L.P. ("SVB Innovation") as the lenders, and SVB as the collateral agent. The total principal amount of the loans is $20.0 million (the "Term Loans"), and all obligations due under the Term Loans are collateralized by all of the Company's right, title, and interest in and to its specified personal property in favor of the collateral agent. The Term Loans include events of default and covenant provisions, whereby accelerated repayment may result if the Company were to default. On January 1, 2022, the Company began repaying the Term Loans, which are payable in 24 equal monthly installments, including principal and interest. The interest rate on the loans is a floating rate per annum equal to the greater of (i) 8.5% and (ii) the Prime Rate plus the Prime Rate Margin (each as defined in the Loan and Security Agreement), which increases by 2% per annum upon the occurrence of an event of default. For the three and nine months ended September 30, 2023, the Company recognized interest expense of $0.1 million and $0.6 million, respectively. For the three and nine months ended September 30, 2022, the Company recognized interest expense of $0.3 million and $1.1 million, respectively.

Additionally, in conjunction with the issuance of the Term Loans, the Company issued 366,140 warrants to SVB and 366,140 warrants to SVB Innovation, totaling 732,280 warrants. The Company issued the warrants to the lenders as consideration for entering into the Term Loans, representing a loan issuance fee. Each warrant provides SVB and SVB Innovation with the right to purchase one share of the Company's Class A common stock. The Company recorded the warrants as liabilities at their fair value and adjusts the warrants to fair value at each reporting period. This liability is subject to remeasurement at each balance sheet date until exercised, and any change in fair value is recognized as a gain or loss in the Company's consolidated condensed statements of operations. The initial offsetting entry to the warrant liability was a debt discount recorded to reflect the loan issuance fee. See Note 12 - Liability Classified Warrants for further details. Effective March 27, 2023, the Term Loans and warrants were assigned to and assumed by First-Citizens Bank & Trust Company on the original terms and conditions of the financial instruments.

Upon the closing of the business combination between the Company, Atlas Crest Investment Corp. ("Atlas") and Artemis Acquisition Sub Inc. (the "Business Combination") on September 16, 2021 (the "Closing Date"), the SVB warrants became public warrants. The subsequent measurement of the SVB warrants as of September 30, 2023 is classified as Level 1 due to the use of an observable market quote in an active market under the ticker "ACHR WS." The quoted price of the public warrants was $1.23 as of September 30, 2023.

During the three and nine months ended September 30, 2023, the Company recognized interest expense of $0.2 million and $0.5 million related to the amortization of the discount and issuance costs, respectively. During the three and nine months ended September 30, 2022, the Company recognized interest expense of $0.1 million and $0.4 million related to the amortization of the discount and issuance costs, respectively. The unamortized balance of the discount and issuance costs was $0.2 million as of September 30, 2023.

The future scheduled principal maturities of notes payable as of September 30, 2023 are as follows (in millions):

Remaining 2023	$ 2.5
	$ 2.5

Note 7 - Commitments and Contingencies

Operating Leases

The Company leases office, lab, hangar, and storage facilities under various operating lease agreements with lease periods expiring between 2023 and 2030 and generally containing periodic rent increases and various renewal and termination options.

The Company's lease costs were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	$ 1.2	$ 1.5	$ 4.5	$ 4.1
Short-term lease cost	—	0.1	0.6	0.1
Total lease cost	$ 1.2	$ 1.6	$ 5.1	$ 4.2

The Company's weighted-average remaining lease term and discount rate as of September 30, 2023 and 2022 were as follows:

	2023	2022
Weighted-average remaining lease term (in months)	59	41
Weighted-average discount rate	14.66 %	11.46 %

The minimum aggregate future obligations under the Company's non-cancelable operating leases as of September 30, 2023 were as follows (in millions):

Remaining 2023	$ 1.2
2024	5.4
2025	5.0
2026	4.6
2027	2.1
Thereafter	6.7
Total future lease payments	25.0
Less: leasehold improvement allowance	(0.7)
Total net future lease payments	24.3
Less: imputed interest	(7.9)
Present value of future lease payments	$ 16.4

Supplemental cash flow information and non-cash activities related to right-of-use assets and lease liabilities were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating cash outflows from operating leases	$ 1.0	$ 0.9	$ 3.8	$ 2.7
Operating lease liabilities from obtaining right-of-use assets	$ —	$ —	$ 0.4	$ 9.2

Finance Lease

In February 2023, the Company entered into a lease arrangement with the Newton County Industrial Development Authority (the "Authority") for the Company's manufacturing facilities to be constructed in Covington, Georgia. In connection with the lease arrangement, the Authority issued a taxable revenue bond (the "Bond"), which was acquired by the Company. The arrangement is structured so that the Company's lease payments to the Authority equal and offset the Authority's bond payments to the Company. Accordingly, the Company offsets the finance lease obligation and the Bond on its consolidated condensed balance sheets.

Letters of Credit

On February 28, 2023, in conjunction with a project agreement the Company entered into with the City of Covington and the Authority for the Company's manufacturing facilities to be constructed in Covington, Georgia, the Company entered into a standby letter of credit in the amount of $3.5 million in favor of the City of Covington, to guarantee certain performance obligations. The standby letter of credit expires on March 31, 2035.

As of September 30, 2023, the Company had standby letters of credit in the aggregate outstanding amount of $6.2 million, secured with restricted cash.

Litigation

During the ordinary course of the business, the Company may be subject to legal proceedings, various claims, and litigation. Such proceedings can be costly, time consuming, and unpredictable, and therefore, no assurance can be given that the final outcome of such proceedings will not materially impact the Company's financial condition or results of operations.

Wisk Settlement

On August 10, 2023, the Company, the Boeing Company ("Boeing") and Wisk Aero LLC ("Wisk") (a wholly-owned subsidiary of Boeing) entered into a series of agreements that provide for, among other things, for certain investments by Boeing into the Company and an autonomous flight technology collaboration between Wisk and the Company, the issuance of certain warrants to Wisk and resolution of the federal and state court litigation between the parties (the "Technology and Dispute Resolution Agreements").

Pursuant to a private placement transaction entered into by the Company on August 10, 2023, Boeing subscribed to purchase shares of the Company's Class A common stock, par value $0.0001 per share (the "Common Stock") (the "First Boeing Investment") and received registration rights with respect to such shares of Common Stock and the shares of Common Stock underlying the Warrant (as defined below) pursuant to a registration rights agreement.

Pursuant to the Technology and Dispute Resolution Agreements, the Company has agreed to issue Wisk a warrant to purchase up to 13,176,895 shares of Common Stock with an exercise price of $0.01 per share (the "Warrant"). The Warrant shall vest and be exercisable as follows: (i) immediately as to 4,512,636 shares, underlying the Warrant (the "Initial Vested Share Tranche") and (ii) for up to 8,664,259 shares (the "Second Tranche") underlying the Warrant as determined six months from the effective date of the Warrant (the "Specified Date"). The extent to which the Second Tranche vests is based on the value of the First Boeing Investment and the shares underlying the Initial Vested Share Tranche as of the Specified Date. The portion of the Warrant that does not vest in accordance with the foregoing shall be forfeited on the Specified Date.

Wisk and Boeing agreed not to transfer any of the shares of Common Stock issued in the Initial Boeing Investment or the shares of Common Stock underlying the Warrant until the Specified Date.

In addition, Boeing has agreed to participate in a subsequent private placement of equity or equity-linked securities by the Company, if any, that occurs on or prior to a specified date (the "Second Boeing Investment"). Concurrently with the closing of the Second Boeing Investment, the Company would issue to Wisk a subsequent warrant to purchase a certain number of shares of Common Stock at an exercise price of $0.01 per share, in connection with Wisk's services related to the insertion of its autonomy technology into the Company's aircraft.

The Company recorded the Initial Vested Share Tranche within equity at its fair value. The Company recognized technology and dispute resolution agreements expense for the Initial Vested Share Tranche upon issuance. The Company recorded the Second Tranche as liabilities at their fair value and adjusts the warrants to fair value at each reporting period. This liability is subject to remeasurement at each balance sheet date until exercised, and any change in fair value is recognized as a gain or loss in the Company's consolidated condensed statements of operations. The initial offsetting entry to the warrant liability was technology and dispute resolution agreements expense. During the three months ended September 30, 2023, the Company recorded a loss of $2.3 million to recognize the change in fair value of the Second Tranche. During the nine months ended September 30, 2023, the Company recorded a $75.3 million non-cash charge in general and administrative expenses consisting of a $26.3 million non-cash charge associated with the Initial Vested Share Tranche and a $49.0 million non-cash charge for the unvested portion of the Warrant that is subject to the vesting criteria described above and may never be realized.

Note 8 - Preferred and Common Stock

Preferred Stock

As of September 30, 2023, no shares of preferred stock were outstanding, and the Company has no present plans to issue any shares of preferred stock.

Class A and Class B Common Stock

Except for voting rights and conversion rights, or as otherwise required by applicable law, the shares of the Company's Class A common stock and Class B common stock have the same powers, preferences, and rights and rank equally, share ratable and are identical in all respects as to all matters. The rights, privileges, and preferences are as follows:

Voting

Holders of the Company's Class A common stock are entitled to one vote per share on all matters to be voted upon by the stockholders, and holders of Class B common stock are entitled to ten votes per share on all matters to be voted upon by the stockholders. The holders of Class A common stock and Class B common stock will generally vote together as a single class on all matters submitted to a vote of the stockholders, unless otherwise required by Delaware law or the Company's amended and restated certificate of incorporation.

Dividends

Holders of Class A common stock and Class B common stock are entitled to receive such dividends, if any, as may be declared from time to time by the Company's board of directors in its discretion out of funds legally available therefor. No dividends on common stock have been declared by the Company's board of directors through September 30, 2023, and the Company does not expect to pay dividends in the foreseeable future.

Preemptive Rights

Stockholders have no preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to Class A common stock and Class B common stock.

Conversion

Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. In addition, each share of Class B common stock will automatically convert into one share of Class A common stock upon transfer to a non-authorized holder. In addition, Class B common stock is subject to "sunset" provisions, under which all shares of Class B common stock will automatically convert into an equal number of shares of Class A common stock upon the earliest to occur of (i) the ten-year anniversary of the closing of the Business Combination, (ii) the date specified by the holders of two-thirds of the then outstanding Class B common stock, voting as a separate class, and (iii) when the number of Class B common stock represents less than 10% of the aggregate number of Class A common stock and Class B common stock then outstanding. In addition, each share of Class B common stock will automatically convert into an equal number of Class A common stock upon the earliest to occur of (a) in the case of a founder of the Company, the date that is nine months following the death or incapacity of such founder, and, in the case of any other holder, the date of the death or incapacity of such holder, (b) in the case of a founder of the Company, the date that is 12 months following the date that such founder ceases to provide services to the Company and its subsidiaries as an executive officer, employee or director of the Company, and, in the case of any other holder, immediately at the occurrence of any such event, and (c) in the case of a founder of the Company or any other holder, at least 80% (subject to customary capitalization adjustments) of the Class B common stock held by such founder or holder (on a fully as converted/as exercised basis) as of immediately following the closing of the Business Combination having been transferred (subject to exceptions for certain permitted transfers).

During the three and nine months ended September 30, 2023, 1,888,036 and 18,247,346 shares of Class B common stock were converted into Class A common stock, respectively. During the three and nine months ended September 30, 2022, 1,182,629 and 7,131,170 shares of Class B common stock were converted into Class A common stock, respectively.

On August 10, 2023, the Company entered into subscription agreements with certain investors providing for the private placement of 26,173,286 shares of Common Stock, resulting in net proceeds of approximately $139.0 million, after deducting offering costs.

Liquidation

In the event of the Company's voluntary or involuntary liquidation, dissolution, distribution of assets or winding-up, subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of the Company's common stock will be entitled to receive an equal amount per share of all of the Company's assets of whatever kind available for distribution to stockholders, after the rights of the holders of any preferred stock have been satisfied.

Note 9 - Stock-Based Compensation

Amended and Restated 2021 Plan

In August 2021, the Company adopted the 2021 Equity Incentive Plan (the "2021 Plan"), which was approved by the stockholders of the Company in September 2021 and became effective immediately upon the closing of the Business Combination. In April 2022, the Company amended and restated the 2021 Plan (the "Amended and Restated 2021 Plan"), which was approved by the stockholders of the Company in June 2022. The aggregate number of shares of Class A common stock that may be issued under the plan increased to 34,175,708. In addition, the number of shares of Class A common stock reserved for issuance under the Amended and Restated 2021 Plan will automatically increase on January 1st of each year following this amendment, starting on January 1, 2023 and ending on (and including) January 1, 2031, in an amount equal to the lesser of (1) 5.0% of the total number of shares of Class A and Class B common stock outstanding on December 31 of the preceding year, or (2) a lesser number of shares of Class A common stock determined by the board of directors prior to the date of the increase. In accordance therewith, the number of shares of Class A common stock reserved for issuance under the Amended and Restated 2021 Plan increased by 12,292,155 shares on January 1, 2023. The Amended and Restated 2021 Plan provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance awards, and other awards to employees, directors, and non-employees.

In connection with the adoption of the 2021 Plan, the Company ceased issuing awards under its 2019 Equity Incentive Plan (the "2019 Plan"). Following the closing of the Business Combination, the Company assumed the outstanding stock options under the 2019 Plan and converted such stock options into options to purchase the Company's common stock. Such stock options will continue to be governed by the terms of the 2019 Plan and the stock option agreements thereunder, until such outstanding options are exercised or until they terminate or expire.

Employee Stock Purchase Plan

In August 2021, the Company adopted the 2021 Employee Stock Purchase Plan (the "ESPP"), which became effective immediately upon the closing of the Business Combination. The ESPP permits eligible employees to purchase shares of Class A common stock at a price equal to 85% of the lower of the fair market value of Class A common stock on the first day of an offering or on the date of purchase. Additionally, the number of shares of Class A common stock reserved for issuance under the ESPP will automatically increase on January 1st of each year, beginning on January 1, 2022 and continuing through and including January 1, 2031, by the lesser of (i) 1.0% of the total number of shares of Class A common stock outstanding on December 31 of the preceding year; (ii) 9,938,118 shares of Class A common stock; or (iii) a lesser number of shares of Class A common stock determined by the board of directors prior to the date of the increase. In accordance therewith, the number of shares of Class A common stock reserved for issuance under the ESPP increased by 1,809,383 on January 1, 2023. As of September 30, 2023, the maximum number of shares authorized for issuance under the ESPP was 8,406,337, of which 7,805,232 shares remained available under the ESPP.

The Company currently offers six-month offering periods, and at the end of each offering period, which occurs every six months on May 31 and November 30, employees can elect to purchase shares of the Company's Class A common stock with contributions of up to 15% of their base pay, accumulated via payroll deductions, subject to certain limitations.

During the nine months ended September 30, 2023, for the six-month ESPP offering period that ended on May 31, 2023, employees purchased 601,105 shares at a price of $2.19 per share.

The Company uses the Black-Scholes option pricing model to calculate the grant date fair value of each award granted under the ESPP.The following table sets forth the key assumptions and fair value results for each award granted in the Company's six-month offering period that started on June 1, 2023:

	June 1, 2023
Stock price	$ 2.99
Risk-free interest rate	5.44 %
Term (in years)	0.50
Volatility	81.00 %
Dividend yield	0.00 %
Grant date fair value per share	$ 1.11

During the three and nine months ended September 30, 2023, the Company recognized stock-based compensation expense of $0.4 million and $1.0 million for the ESPP, respectively. There was no stock-based compensation expense recognized for the ESPP during each of the three and nine months ended September 30, 2022.

As of September 30, 2023, the total remaining stock-based compensation expense was $0.2 million for the ESPP, which is expected to be recognized over the current six-month offering period until November 30, 2023.

Annual Equity Awards

Subject to the achievement of certain performance goals established by the Company from time to time, the Company's employees are eligible to receive an annual incentive bonus that will entitle them to an annual grant of a number of restricted stock units ("RSUs") determined by dividing the annual bonus target amount by the closing price of the Company's Class A common stock on the date of grant. The RSUs will be fully vested on the date of grant. Furthermore, all the annual equity awards are contingent and issued only upon approval by the Company's board of directors or the compensation committee. During the three and nine months ended September 30, 2023, the Company recognized stock-based compensation expense of $2.8 million and $8.8 million, respectively, and during the three and nine months ended September 30, 2022, the Company recognized stock-based compensation expense of $2.6 million and $6.6 million, respectively, related to these annual equity awards.

Stock Options

A summary of the Company's stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In millions)
Outstanding as of January 1, 2023	5,335,974	$ 0.12	7.66	$ 9.4
Exercised	(1,591,076)	$ 0.12		$ 5.5
Expired/forfeited	(139,385)	$ 0.12		
Outstanding as of September 30, 2023	3,605,513	$ 0.12	6.91	$ 17.8
Exercisable as of September 30, 2023	1,260,335	$ 0.13	7.01	$ 6.2
Vested and expected to vest as of September 30, 2023	3,605,513	$ 0.12	6.91	$ 17.8

The Company recognized stock-based compensation expense of $0.6 million and $2.0 million for stock options for the three and nine months ended September 30, 2023, respectively. The Company recognized stock-based compensation expense of $0.9 million and $3.0 million for stock options for the three and nine months ended September 30, 2022, respectively.

As of September 30, 2023, the total remaining stock-based compensation expense for unvested stock options was $5.8 million, which is expected to be recognized over a weighted-average period of 0.8 years.

Restricted Stock Units

A summary of the Company's RSU activity is as follows:

	Number of Shares		Weighted Average Grant Price
Outstanding as of January 1, 2023	43,146,632	$	5.72
Granted	10,879,413	$	3.14
Vested	(5,704,993)	$	3.95
Forfeited	(15,847,964)	$	6.28
Outstanding as of September 30, 2023	32,473,088	$	4.90

During the nine months ended September 30, 2023, the Company granted 998,364 RSUs under the Amended and Restated 2021 Plan, representing the quarterly equity awards for the Company's fourth fiscal quarter of 2022. The RSUs were fully vested on the date of grant and settled in Class A common stock on a one-for-one basis. In addition, the Company granted 9,881,049 RSUs under the Amended and Restated 2021 Plan, which generally vest over a three- or four-year period with a one-year cliff and remain subject to forfeiture if vesting conditions are not met. Upon vesting, RSUs are settled in Class A common stock on a one-for-one basis. The shares of Class A common stock underlying RSU grants are not issued and outstanding until the applicable vesting date.

Immediately prior to closing of the Business Combination, each of the Company's founders was granted 20,009,224 RSUs under the 2019 Plan (the "Founder Grants") pursuant to the terms and conditions of the business combination agreement, dated February 10, 2021, as amended and restated on July 29, 2021 (the "Business Combination Agreement"). Considering each of the founder's existing equity ownership and assuming the Founder Grants fully vest, it would result in each of the founders owning approximately 18% of all outstanding shares of the Total Outstanding Capitalization of the Company (as defined in the Business Combination Agreement). One-quarter of each Founder Grant vests upon the achievement of the earlier to occur of (i) a price-based milestone or (ii) a performance-based milestone, with a different set of such price and performance-based milestones applying to each quarter of each Founder Grant and so long as the achievement occurs within seven years following the closing of the Business Combination.

The Company accounts for the Founder Grants as four separate tranches, with each tranche consisting of two award grants, a performance award grant and market award grant. Each tranche vests when either the market condition or performance condition is satisfied (only one condition is satisfied). The Company determined the fair value of the performance award by utilizing the trading price on the Closing Date. When the applicable performance milestone is deemed probable of being achieved, the Company will recognize compensation expense for the portion earned to date over the requisite period. For the market award, the Company determined both the fair value and derived service period using a Monte Carlo simulation model on the Closing Date. The Company will recognize compensation expense for the market award on a straight-line basis over the derived service period. If the applicable performance condition is not probable of being achieved, compensation cost for the value of the award incorporating the market condition is recognized, so long as the requisite service is provided. If the performance milestone becomes probable of being achieved, the full fair value of the award will be recognized, and any remaining expense for the market award will be canceled.

One-quarter of each Founder Grant, totaling 5,002,306 shares each of Class B common stock, vested immediately prior to the Closing Date pursuant to the terms and conditions of the Business Combination Agreement. On April 14, 2022, the vested 5,002,306 shares of Class B common stock of the Company's co-founder and former co-CEO, were cancelled. Following the separation of the officer from the Company on April 13, 2022 (the "Separation Date"), the officer's unvested 15,006,918 shares of Class B common stock for the remaining three tranches remain outstanding and eligible for vesting upon the achievement of the milestones as described above for 15 months from the Separation Date pursuant to the original terms of the Founder Grants.

On July 13, 2023, 15 months following the separation of the officer from the Company, the officer's unvested 15,006,918 shares of Class B common stock for the remaining three tranches of the Founder Grant were forfeited. The Company reversed the previously recognized stock-compensation expense associated with these shares for $59.1 million. As of September 30, 2023, there were 15,006,918 shares of Class B common stock outstanding for the remaining Founder Grant.

For the three and nine months ended September 30, 2023, the Company recorded $8.2 million and $24.3 million, respectively, of stock-based compensation expense for the amortized portion of the market award for the remaining three tranches of the outstanding Founder Grant in general and administrative expenses in the consolidated condensed statements of operations. For the three and nine months ended September 30, 2022, the Company recorded $16.3 million and $48.5 million, respectively, of stock-based compensation expense for the amortized portion of the market award for the remaining three tranches in general and administrative expenses in the consolidated condensed statements of operations. Of the amounts recorded during the prior year periods, approximately $8.2 million and $24.3 million of stock-based compensation expense associated with the forfeiture were reversed in July 2023 for the three and nine months ended September 30, 2022, respectively, which were recorded during the three months ended September 30, 2023.

For the three and nine months ended September 30, 2023, the Company recorded $7.7 million and $19.2 million, respectively, and for the three and nine months ended September 30, 2022, the Company recorded $5.4 million and $16.5 million, respectively, of stock-based compensation expense related to RSUs (excluding the Founder Grants).

As of September 30, 2023, the total remaining stock-based compensation expense for unvested RSUs (including the remaining Founder Grant) was $139.3 million, which is expected to be recognized over a weighted-average period of 1.2 years.

Restricted Stock

In August 2023, the Company issued 1,985,559 shares of Class A common stock to an outside vendor to satisfy $11.0 million of the Company's outstanding payable to that vendor. Accordingly, the Company reclassified $11.0 million of legal expense to stock-based compensation expense within general and administrative expenses in the consolidated condensed statements of operations during the three months ended September 30, 2023.

The Company records stock-based compensation expense for stock-based compensation awards based on the fair value on the date of grant. The stock-based compensation expense is recognized ratably over the course of the requisite service period.

The Company has elected to account for forfeitures as they occur and will record stock-based compensation expense assuming all stockholders will complete the requisite service period. If an employee forfeits an award because they fail to complete the requisite service period, the Company will reverse stock-based compensation expense previously recognized in the period the award is forfeited.

The following table presents stock-based compensation expense included in each respective expense category in the consolidated condensed statements of operations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Research and development	$ 7.5	$ 6.7	$ 20.9	$ 19.0
General and administrative	(34.9)	19.5	3.9	57.3
Total stock-based compensation expense	$ (27.4)	$ 26.2	$ 24.8	$ 76.3

Warrants

A summary of the Company's warrant activity is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In millions)
Outstanding as of January 1, 2023	8,736,599	$ 0.01	7.84	$ 16.3
Issued	15,000,000	$ 0.01		
Exercised	(2,948,352)	$ 0.01		$ 17.0
Outstanding as of September 30, 2023	20,788,247	$ 0.01	4.73	$ 105.0
Vested and exercisable as of September 30, 2023	2,839,893	$ 0.01	2.42	$ 14.3

United Airlines

On January 29, 2021, the Company entered into a Purchase Agreement (the "United Purchase Agreement"), Collaboration Agreement (the "United Collaboration Agreement"), and Warrant to Purchase Shares Agreement (the "United Warrant Agreement") with United Airlines, Inc. ("United"). Under the terms of the United Purchase Agreement, United has a conditional purchase order for up to 200 of the Company's aircraft, with an option to purchase an additional100 aircraft. Those purchases are conditioned upon the Company meeting certain conditions that include, but are not limited to, the certification of the Company's aircraft by the FAA and further negotiation and reaching of mutual agreement on certain material terms related to the purchases. The Company issued 14,741,764 warrants to United to purchase shares of the Company's Class A common stock. Each warrant provides United with the right to purchase one share of the Company's Class A common stock at an exercise price of $0.01 per share. The warrants were initially expected to vest infour installments in accordance with the following milestones: the execution of the United Purchase Agreement and the United Collaboration Agreement, the completion of the Business Combination, the certification of the aircraft by the FAA, and the sale of aircraft to United.

On August 9, 2022, the Company entered into Amendment No. 1 to the United Purchase Agreement (the "Amended United Purchase Agreement") and Amendment No. 1 to the United Warrant Agreement (the "Amended United Warrant Agreement"). In association with the Amended United Purchase Agreement, the Company received a $10.0 million pre-delivery payment from United for 100 of the Company's aircraft (the "Pre-Delivery Payment"), which was recognized as a contract liability in other long-term liabilities in the Company's consolidated condensed balance sheets. Pursuant to the Amended United Warrant Agreement, the vesting condition of the fourth milestone of the United Warrant Agreement was modified, and the warrants now vest in four installments in accordance with the following sub-milestones: (i) 737,088 warrants vested upon receipt by the Company of the Pre-Delivery Payment on August 9, 2022; (ii)2,211,264 warrants vested on February 9, 2023 upon the six-month anniversary of the amendment date; (iii) 3,685.45 warrants shall vest upon the acceptance and delivery of each of the Company's 160 aircraft; and (iv) 22,112.65 warrants shall vest upon the acceptance and delivery of each of the Company's 40 aircraft.

The Company accounts for the Amended United Purchase Agreement and the United Collaboration Agreement under ASC 606,*Revenue from Contracts with Customers*. The Company identified the sale of each aircraft ordered by United as a separate performance obligation in the contract. As the performance obligations have not been satisfied, the Company has not recognized any revenue as of September 30, 2023.

With respect to the warrant vesting milestones outlined above, the Company accounts for them as consideration payable to a customer under ASC 606 related to the future purchase of aircraft by United. Pursuant to ASC 718, *Compensation — Stock Compensation,* the Company measured the grant date fair value of the warrants to be recognized upon the achievement of each of the original four milestones and the vesting of the related warrants. The Company determined that the warrants will be classified as equity awards based on the criteria of ASC 480, *Distinguishing Liabilities from Equity* and ASC 718.

For the first milestone, issuance of the warrants in conjunction with the execution of the United Purchase Agreement and the United Collaboration Agreement, the Company recorded the grant date fair value of the respective warrant tranche at the vesting date upon satisfaction of the milestone, and the related costs were recorded in other warrant expense due to the absence of historical or probable future revenue. For the second milestone, the completion of the Business Combination transaction, the related costs were also recorded in other warrant expense due to the absence of historical or probable future revenue. For the third milestone, the certification of the aircraft by the FAA, the Company will assess whether it is probable that the award will vest at the end of every reporting period. If and when the award is deemed probable of vesting, the Company will begin capitalizing the grant date fair value of the associated warrants as an asset through the vesting date and subsequently amortize the asset as a reduction to revenue as it sells the new aircraft to United.

For the original fourth milestone, the sale of aircraft to United, the Company was initially expected to record the cost associated with the vesting of each portion of warrants within this milestone as a reduction of the transaction price as revenue is recognized for each sale of the aircraft. In connection with the Amended United Warrant Agreement, the Company evaluated the accounting implications associated with the amendment to the fourth milestone in accordance with ASC 606 and ASC 718. For the first sub-milestone, the receipt of the Pre-Delivery Payment, the Company accounted for it as a modification under ASC 718 and recorded the modification date fair value of the associated warrants in other warrant expense upon satisfaction of the sub-milestone on August 9, 2022. For the second sub-milestone, the vesting of warrants on February 9, 2023, the Company accounted for it as a modification under ASC 718 and will record the modification date fair value of the associated warrants in other warrant expense on a straight-line basis over six months following the amendment date. The modification date fair value of each warrant associated with the first and second sub-milestones was determined to be $4.37, which was the stock price of the Company's Class A common stock at the modification date. For the third and fourth sub-milestones, the sale of 160 aircraft and 40 aircraft, respectively, the Company determined that the amendment does not represent a modification under ASC 718. The Company will record the cost associated with the vesting of each portion of the associated warrants as a reduction of the transaction price based on the original grant date fair value as revenue is recognized for each sale of the aircraft.

For the three and nine months ended September 30, 2023, the Company recorded zero and $2.1 million in other warrant expense, respectively, in the consolidated condensed statement of operations related to the second sub-milestone under the fourth milestone, and a total of 2,211,264 warrants vested from achievement of this milestone. For each of the three and nine months ended September 30, 2022, the Company recorded $6.0 million in other warrant expense in the consolidated condensed statement of operations related to the first and second sub-milestones, and a total of 737,088 warrants vested from achievement of the first sub-milestone.

In August 2023, the Company issued 2,942,778 shares of Class A common stock to United, who cashless net exercised 2,948,352 warrants related to the achievement of the first two sub-milestones under the fourth milestone.

Stellantis N.V.

On January 3, 2023, the Company entered into a manufacturing and collaboration agreement with Stellantis N.V. ("Stellantis"), pursuant to which the Company and Stellantis will collaborate on the development and implementation of the Company's manufacturing operations for the production of its eVTOL aircraft products (the "Stellantis Collaboration Agreement"). In connection with the Stellantis Collaboration Agreement, the Company entered into a forward purchase agreement (as amended, the "Stellantis Forward Purchase Agreement") and a warrant agreement (the "Stellantis Warrant Agreement") with Stellantis on January 3, 2023.

Under the terms of the Stellantis Forward Purchase Agreement, the Company may elect, in the Company's sole discretion, to issue and sell to Stellantis up to $150.0 million of shares of the Company's Class A common stock, following the satisfaction of certain Milestones (as defined in the Stellantis Forward Purchase Agreement) and pursuant to the terms and conditions of the Stellantis Forward Purchase Agreement. As any issuance of Class A common stock by the Company to Stellantis pursuant to the Stellantis Forward Purchase Agreement is at the election of the Company, the Company will recognize any share issuance at the time it elects to issue and sell shares to Stellantis.

Under the terms of the Stellantis Warrant Agreement, Stellantis is entitled to purchase up to 15.0 million shares of the Company's Class A common stock, at an exercise price of $0.01 per share (the "Stellantis Warrant"). The warrant will vest and become exercisable in three equal tranches upon 12, 24 and 36 months of the grant date, provided that (i) Stellantis has performed certain undertakings set forth in the Stellantis Collaboration Agreement and/or (ii) the VWAP (as defined in the Stellantis Warrant Agreement) for the Class A common stock exceeding certain specified amounts. Pursuant to the terms and conditions of the Stellantis Collaboration Agreement, Stellantis is deemed to have performed the undertakings if the Stellantis Collaboration Agreement has not been terminated by the Company as of the specified vesting date for each tranche.

As the Company is currently in pre-revenue stage and is not generating any revenue from the Stellantis Collaboration Agreement, all costs incurred with third parties are recorded based on the nature of the costs incurred. The Company accounts for the warrant in accordance with the provisions of ASC 718. The grant date fair value of each warrant was determined to be $1.93, which was the stock price of the Company's Class A common stock on January 3, 2023. For each tranche of the warrant, the Company will recognize compensation costs as the related services are received from Stellantis on a straight-line basis over the associated service period. During the three and nine months ended September 30, 2023, the Company recorded $4.4 million and $13.1 million of research and development expense in the consolidated condensed statements of operations in connection with the Stellantis Collaboration Agreement.

On June 23, 2023, the Company issued 6,337,039 shares of Class A common stock to Stellantis at a price of $3.94506 per share in connection with the first milestone under the Stellantis Forward Purchase Agreement and received approximately $25.0 million in gross proceeds. The Company recognized the issued shares at a fair value of $3.38 per share, which was the closing price of the Company's Class A common stock on June 23, 2023, and recognized a gain of $3.6 million within other (expense) income, net in the consolidated condensed statements of operations during the nine months ended September 30, 2023, to account for the difference between the amount of cash proceeds and the fair value of the issued shares.

On August 10, 2023, Stellantis waived certain conditions provided for in the Stellantis Forward Purchase Agreement relating to the Company's actual achievement pursuant to Milestone 2 (as defined in the Stellantis Forward Purchase Agreement). In connection with this waiver, the Company submitted an election notice to draw down upon the $70.0 million applicable to Milestone 2, which equals 12,313,234 shares of Common Stock. This drawdown was completed on October 16, 2023. See Note 13 - Subsequent Events.

Note 10 - Income Taxes

The Company recognized $0.1 million and $0.3 million of income tax expense for the three and nine months ended September 30, 2023, respectively, and zero income tax expense for each of the three and nine months ended September 30, 2022, resulting in an effective tax rate of 0%. The effective tax rate is different from the federal statutory tax rate primarily due to the full valuation allowance on the Company's deferred tax assets.

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Based upon the analysis of federal and state deferred tax balances, future tax projections, and the Company's lack of taxable income in the carryback period, the Company recorded a full valuation allowance on its U.S. deferred tax assets as of September 30, 2023 and 2022.

Note 11 - 401(k) Savings Plan

The Company maintains a 401(k) savings plan for the benefit of its employees. The Company makes matching contributions equal to 50% of each employee contribution, subject to the maximum amount established by the Internal Revenue Service. All current employees are eligible to participate in the 401(k) savings plan. The Company's matching contributions were approximately $0.9 million and $2.7 million for the three and nine months ended September 30, 2023, respectively, and $0.5 million and $1.5 million for the three and nine months ended September 30, 2022, respectively.

Note 12 - Liability Classified Warrants

As of September 30, 2023, there were 17,398,947 public warrants outstanding. Public warrants may only be exercised for a whole number of shares. No fractional shares are issued upon exercise of the public warrants. The public warrants became exercisable on October 30, 2021, 12 months after the closing of the initial public offering of Atlas, the predecessor of Archer. The public warrants will expire five years from the consummation of the Business Combination or earlier upon redemption or liquidation.

Once the public warrants become exercisable, the Company may redeem the public warrants for redemption:

• in whole and not in part;

• at a price of $0.01 per public warrant;

- upon not less than 30 days' prior written notice of redemption to each warrant holder; and

- if, and only if, the closing price of the Class A common stock equals or exceeds $18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within a 30-trading day period commencing after the warrants become exercisable and ending three business days before the Company sends the notice of redemption to the warrant holders.

If and when the warrants become redeemable by the Company, the Company may exercise its redemption right even if the Company is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

Each public warrant entitles the registered holder to purchase one share of Class A common stock at a price of $11.50 per share. The exercise price and number of Class A common stock issuable upon exercise of the public warrants may be adjusted in certain circumstances including in the event of a share dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation. The public warrants will not be adjusted for issuances of Class A common stock at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the public warrants.

As of September 30, 2023, there were 8,000,000 private placement warrants outstanding. The private placement warrants are identical to the public warrants underlying the shares sold in the initial public offering of Atlas, except that the private placement warrants and the shares of Class A common stock issuable upon the exercise of the private placement warrants became transferable, assignable, and salable on October 16, 2021, 30 days after the completion of the Business Combination, subject to certain limited exceptions. Additionally, the private placement warrants will be exercisable on a cashless basis and will be non-redeemable so long as they are held by the initial purchasers or their permitted transferees. If the private placement warrants are held by someone other than the initial purchasers or their permitted transferees, the private placement warrants will be redeemable by the Company and exercisable by such holders on the same basis as the public warrants.

Note 13 - Subsequent Events

On October 3, 2023, the Company entered into a design-build agreement relating to the design, coordination and build of the Company's high-volume manufacturing facility in Covington, Georgia. The Company has agreed to pay the guaranteed maximum price of approximately $54.4 million for the project, subject to certain adjustments for change orders and change directives issued by the Company and for costs resulting from uncontrollable circumstances.

On October 5, 2023, the Company entered into a credit agreement (the "Credit Agreement") with Synovus Bank, as administrative agent and lender, and the additional lenders (the "Lenders") from time to time. The Company may request the Lenders to provide multiple delayed term loan advances ("Loans") in an aggregate principal amount of up to $65.0 million for the construction and development of the Company's manufacturing facility in Covington, Georgia. The Loans under the Credit Agreement shall accrue interest from and including the date the applicable advance is made but excluding the repayment date at a rate of the secured overnight financing rate ("SOFR"), plus 2.00% subject to a SOFR floor of 0.00%. The Company is required to make interest-only payments for 36 months on the Loans starting on November 14, 2023, followed by monthly interest and principal payments for the remaining maturity, with any outstanding principal, interest and other then outstanding indebtedness due at maturity. The Credit Agreement matures on the earlier of October 5, 2033 or the date on which all outstanding Loans have been declared or automatically become due and payable pursuant to the terms of the Credit Agreement. The obligations of the Company under the Credit Agreement are jointly and severally guaranteed by the Company's current and future wholly-owned domestic subsidiaries, and are secured by cash, general intangibles, instruments, securities, financial assets, security entitlements and other property maintained in a money market account at Synovus Bank.

On October 16, 2023, the Company issued 12,313,234 shares of Common Stock to Stellantis, at a price per share of $5.68, for gross proceeds of approximately $70.0 million.

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

This Quarterly Report includes forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. See the section titled "Special Note Regarding Forward-Looking Statements" in this Quarterly Report. Our actual results could differ materially from such forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those set forth in Part I, Item 1A, "Risk Factors" in our Annual Report and in Part II, Item 1A, "Risk Factors" of our Q2 10-Q. The following discussion should be read in conjunction with our financial statements and related notes thereto included elsewhere in this Quarterly Report and the audited financial statements as of and for the year ended December 31, 2022 set forth in our Annual Report.

Overview

We are designing and developing electric vertical takeoff and landing ("eVTOL") aircraft for use in urban air mobility ("UAM") networks. Our mission is to unlock the skies, freeing everyone to reimagine how they move and spend time. Our eVTOL aircraft are designed to be safe, sustainable, and quiet. Our production aircraft, Midnight, which we unveiled in November 2022, is designed around our proprietary 12-tilt-6 aircraft configuration. This means that it has 12 propellers attached to 6 booms on a fixed wing with all 12 propellers providing vertical lift during take-off and landing, and the forward 6 propellers tilting forward to cruise position to provide propulsion during forward flight with the wing providing aerodynamic lift like a conventional airplane.

Midnight is designed to carry 4 passengers plus a pilot up to 100 miles at speeds up to 150 miles per hour, but is optimized for back-to-back short distance trips of around 20-miles, with minimal charge time in between trips. We are working to certify Midnight with the Federal Aviation Administration ("FAA") so that we can then enter into commercial service in 2025.

Midnight is the evolution of our demonstrator eVTOL aircraft, Maker, which through its flight test program has helped validate our proprietary 12-tilt-6 aircraft configuration and certain key enabling technologies. The design of Midnight marries what we believe to be cutting-edge electric propulsion technology with state-of-the-art aircraft systems to deliver the key attributes of our eVTOL aircraft:

- **Safety.** High redundancy and simplified propulsion systems make for a significantly safer aircraft compared to a helicopter. Midnight has no single critical point of failure, meaning that should any single component fail, the aircraft can still safely complete its flight.

- **Low noise.** With its intended cruising altitude at approximately 2,000 feet, the design of Midnight is such that the noise that reaches the ground is expected to measure around 45 A-weighted decibels, approximately 100 times quieter than that of a helicopter. During forward flight, the aircraft's tilt propellers spin on axes that are aligned with the oncoming air flow, rather than edge-wise to the flow, as is the case with traditional helicopters - further decreasing noise levels. Since Archer's aircraft is spinning 12 small propellers rather than one large rotor, it can also spin them at significantly lower tip speeds, resulting in much lower noise levels.

- **Sustainable.** Midnight is all electric, resulting in zero operating emissions. Archer is committed to sourcing renewable energy wherever possible to power its aircraft. Archer's design and engineering teams have worked to integrate materials into this aircraft that have their own unique sustainability stories. For example, Midnight's seats are constructed out of "flax" fiber, a natural plant which requires very little irrigation and is highly absorbent of CO_2. In addition, Archer's design uses fabric made from recycled contents like plastic bottles.

We continue to work to optimize our eVTOL aircraft design for both manufacturing and certification. The development of an eVTOL aircraft that meets our business requirements demands significant design and development efforts on all facets of the aircraft. We believe that by bringing together a mix of talent with eVTOL, traditional commercial aerospace, as well as electric propulsion backgrounds, we have built a team that enables us to move through the design, development, and certification of our eVTOL aircraft with the FAA in an efficient manner, thus allowing us to achieve our end goal of bringing to market our eVTOL aircraft as efficiently as possible.

Our Planned Lines of Business

Upon receipt of all necessary FAA certifications and any other government approvals necessary for us to manufacture and operate our aircraft, we intend to operate two complementary lines of business. Our core focus is direct-to-consumer offerings ("Archer UAM") with our secondary focus being business-to-business offerings ("Archer Direct").

Archer UAM

We plan to operate our own UAM ecosystem initially in select major U.S. cities. Our UAM ecosystem will operate using our eVTOL aircraft, which is currently in development. We project that the cost to manufacture and operate our eVTOL aircraft will be such that it will be able to enter the UAM ride-sharing market at a price point that is competitive with ground-based ride sharing services today. We will continue to evaluate our go-to-market strategy based on, among other things, estimated demand, readiness of the required infrastructure, and our ability to scale of our aircraft fleet.

Archer Direct

We also plan to selectively sell a certain amount of our eVTOL aircraft to third parties. We have entered into a purchase agreement (as further amended, the "United Purchase Agreement") with United Airlines, Inc. ("United") for the conditional purchase of up to $1.0 billion worth of aircraft, with an option for another $500.0 million worth of aircraft. In July 2023, we entered into two new contracts with the U.S. Air Force, which includes the delivery of Midnight aircraft, sharing flight test data and development of maintenance and repair operations.

As we get closer to commercialization, we will look to determine the right mix of selling our eVTOL aircraft versus using them as part of our UAM ecosystem based on, among other factors, our capital needs, our volume of manufacturing, our ability to ramp Archer UAM operations, and the purchase demand from our Archer Direct customers.

To date, we have not generated any revenue from either of these planned categories, as we continue to design, develop, and seek the governmental approvals necessary for our eVTOL aircraft to enter into service. We will use our cash and cash equivalents for the foreseeable future to continue to fund our efforts to bring our eVTOL aircraft to market. The amount and timing of any future capital requirements will depend on many factors, including the pace and results of the design and development of our aircraft and manufacturing operations, as well as our progress in obtaining necessary FAA certifications and other government approvals. For example, any significant delays in obtaining such FAA certifications and other government approvals will likely require us to raise additional capital above our existing cash on hand and delay our generation of revenues.

Components of Results of Operations

Revenue

We are still working to design, develop, certify, and bring up manufacturing of our eVTOL aircraft and thus have not generated any revenues from either of our planned lines of business. We do not expect to begin generating significant revenues until we are able to complete the design, development, certification, and bring up of manufacturing of our eVTOL aircraft.

Operating Expenses

Research and Development

Research and development activities represent a significant part of our business. Our research and development efforts focus on the design and development of our eVTOL aircraft, including certain of the systems that are used in it. As part of those activities, we continue to work closely with the FAA towards our goal of achieving certification of our eVTOL aircraft on an efficient timeline. Research and development expenses consist primarily of personnel-related costs (including salaries, bonuses, benefits, and stock-based compensation) for employees focused on research and development activities, costs associated with developing and building prototype aircraft, associated facilities costs, and depreciation. We expect research and development expenses to increase significantly as we progress towards the certification and manufacturing of our eVTOL aircraft.

We cannot determine with certainty the timing, duration or the costs necessary to complete the design, development, certification, and manufacturing bring up of our eVTOL aircraft due to the inherently unpredictable nature of our research and development activities. Development timelines, the probability of success, and development costs may differ materially from expectations.

General and Administrative

General and administrative expenses consist primarily of personnel-related costs (including salaries, bonuses, benefits, and stock-based compensation) for employees associated with administrative services such as finance, legal, human resources, information technology, associated facilities costs, depreciation and non-cash technology and dispute resolution agreements expense. We expect our general and administrative expenses to increase in absolute dollars, primarily as a result of operating as a publicly-traded company, including expenses to comply with the rules and regulations applicable to publicly-traded companies, as well as additional expenses customary for a publicly-traded company, such as directors' and officers' liability insurance, director fees, and additional internal and external accounting and legal fees and expenses.

Other Warrant Expense

Other warrant expense consists entirely of non-cash expense related to the vesting of warrants issued in conjunction with the execution of the United Purchase Agreement and the United Warrant Agreement.

Other (Expense) Income, Net

Other (expense) income, net consists of miscellaneous income and expense items, including the change in fair value of our warrant liabilities

Interest Income, Net

Interest income, net primarily consists of interest income from our cash and cash equivalents and short-term investments in marketable securities, net of interest on notes payable.

Results of Operations

The following tables set forth our consolidated condensed statements of operations for the periods indicated:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change $	Change %
	(In millions)			
Operating expenses				
Research and development [1]	$ 67.8	$ 47.0	$ 20.8	44 %
General and administrative [1]	(21.6)	40.8	(62.4)	(153)%
Other warrant expense	—	6.0	(6.0)	(100)%
Total operating expenses	46.2	93.8	(47.6)	(51)%
Loss from operations	(46.2)	(93.8)	47.6	(51)%
Other (expense) income, net	(10.4)	1.3	(11.7)	NM
Interest income, net	5.1	1.5	3.6	NM
Loss before income taxes	(51.5)	(91.0)	39.5	(43)%
Income tax expense	(0.1)	—	(0.1)	100 %
Net loss	$ (51.6)	$ (91.0)	$ 39.4	(43)%

NM=Not Meaningful.

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Change $	Change %
	(In millions)			
Operating expenses				
Research and development [1]	$ 196.9	$ 112.3	$ 84.6	75 %
General and administrative [1]	140.6	121.0	19.6	16 %
Other warrant expense	2.1	6.0	(3.9)	(65)%
Total operating expenses	339.6	239.3	100.3	42 %
Loss from operations	(339.6)	(239.3)	(100.3)	42 %
Other (expense) income, net	(19.7)	15.8	(35.5)	NM
Interest income, net	10.8	1.6	9.2	NM
Loss before income taxes	(348.5)	(221.9)	(126.6)	57 %
Income tax expense	(0.3)	—	(0.3)	100 %
Net loss	$ (348.8)	$ (221.9)	$ (126.9)	57 %

NM=Not Meaningful.

[1] Includes stock-based compensation expense as follows:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(In millions)			
Research and development	$ 7.5	$ 6.7	$ 20.9	$ 19.0
General and administrative	(34.9)	19.5	3.9	57.3
Total stock-based compensation expense	$ (27.4)	$ 26.2	$ 24.8	$ 76.3

Comparison of the Three and Nine Months Ended September 30, 2023 and 2022

Research and Development

Research and development expenses increased by $20.8 million, or 44%, for the three months ended September 30, 2023, compared to the same period ended September 30, 2022, as we invested in people and materials to advance our technology development. Specifically, the increase was primarily due to an increase of $9.4 million in personnel-related expenses due to a significant increase in our workforce from the prior year period, an increase of $5.6 million in costs related to professional services and tools and materials to support our increased research and development activities, and an increase of $4.0 million in warrant expenses related to the warrants issued to Stellantis N.V. (“Stellantis”) in connection with the manufacturing and collaboration agreement between us and Stellantis. See Note 9 - Stock-Based Compensation to our consolidated condensed financial statements for further details on our warrants.

Research and development expenses increased by $84.6 million, or 75%, for the nine months ended September 30, 2023, compared to the same period ended September 30, 2022, as we invested in people and materials to advance our technology development. Specifically, the increase was primarily due to an increase of $36.8 million in costs related to professional services and tools and materials to support our increased research and development activities, an increase of $29.6 million in personnel-related expenses due to a significant increase in our workforce from the prior year period and an increase of $10.2 million in warrant expenses related to the warrants issued to Stellantis in connection with the manufacturing and collaboration agreement between us and Stellantis. See Note 9 - Stock-Based Compensation to our consolidated condensed financial statements for further details on our warrants.

General and Administrative

General and administrative expenses decreased by $62.4 million, or 153%, for the three months ended September 30, 2023, compared to the same period ended September 30, 2022, primarily due to a reversal of previously recognized stock-compensation expense of $59.1 million associated with the forfeiture of the unvested portion of the Founder Grant issued to the Company’s co-founder and former co-CEO. For more information, refer to Note 9 - Stock-Based Compensation to our consolidated condensed financial statements.

General and administrative expenses increased by $19.6 million, or 16%, for the nine months ended September 30, 2023, compared to the same period ended September 30, 2022. There was an increase primarily due to a $75.3 million non-cash charge comprised of a $26.3 million non-cash charge associated with the Initial Vested Share Tranche and a $49.0 million non-cash charge for the unvested portion of the Warrant that is contingent and may never be realized, relating to the Technology and Dispute Resolution Agreements. The increase was partially offset by a reversal of previously recognized stock-compensation expense of $59.1 million associated with the forfeiture of the unvested portion of the Founder Grant issued to the Company’s co-founder and former co-CEO. For additional information on our commitments and contingencies and stock-based compensation, see Note 7 and Note 9, respectively, to our consolidated condensed financial statements.

Other Warrant Expense

Other warrant expense decreased by $6.0 million, or 100%, and $3.9 million, or 65%, for the three and nine months ended September 30, 2023, respectively, compared to the same periods ended September 30, 2022. The decrease was due to the vesting of United warrants associated with specific milestones during the periods ended September 30, 2022. The warrants associated with the specific milestones fully vested in the first quarter of 2023. See Note 9 - Stock-Based Compensation to our consolidated condensed financial statements for further details on our other warrant expense.

Other (Expense) Income, Net

Other (expense) income, net decreased by $11.7 million and $35.5 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods ended September 30, 2022, primarily due to changes in fair value of our warrant liabilities. See Note 3 - Summary of Significant Accounting Policies to our consolidated condensed financial statements.

Interest Income, Net

Interest income, net increased by $3.6 million and $9.2 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods ended September 30, 2022, primarily due to interest income from our cash and cash equivalents and short-term investments in marketable securities.

Liquidity and Capital Resources

As of September 30, 2023, our principal sources of liquidity were cash and cash equivalents of $461.4 million. We have incurred net losses since our inception and to date have not generated any revenues. We expect to incur additional losses and higher operating expenses for the foreseeable future. We believe that our existing cash and cash equivalents will be sufficient for at least the next 12 months to meet our requirements and plans for cash, including meeting our working capital requirements and capital expenditure requirements.

On August 10, 2023, we entered into subscription agreements with certain investors providing for the private placement of 26,173,286 shares of Class A common stock ("Common Stock") of the Company for net proceeds of approximately $139.0 million, after deducting offering costs (the "Private Placement").

On August 10, 2023, Stellantis waived certain conditions provided for in the Stellantis Forward Purchase Agreement relating to our actual achievement pursuant to Milestone 2 (as defined in the Stellantis Forward Purchase Agreement). In connection with this, we submitted an election notice to draw down upon the $70.0 million applicable to Milestone 2, which equals 12,313,234 shares of the Company's Common Stock. On October 16, 2023, we issued 12,313,234 shares of Common Stock to Stellantis, at a price per share of $5.68, for gross proceeds of approximately $70.0 million.

On October 5, 2023, the Company entered into a credit agreement (the "Credit Agreement") with Synovus Bank, as administrative agent and lender, and the additional lenders (the "Lenders") from time to time. The Company may request the Lenders to provide multiple delayed term loan advances ("Loans") in an aggregate principal amount of up to $65.0 million for the construction and development of the Company's manufacturing facility in Covington, Georgia. The Loans under the Credit Agreement shall accrue interest from and including the date the applicable advance is made but excluding the repayment date at a rate of the secured overnight financing rate ("SOFR"), plus 2.00% subject to a SOFR floor of 0.00%. The Company is required to make interest-only payments for 36 months on the Loans starting on November 14, 2023, followed by monthly interest and principal payments for the remaining maturity, with any outstanding principal, interest and other then outstanding indebtedness due at maturity. The Credit Agreement matures on the earlier of October 5, 2033 or the date on which all outstanding Loans have been declared or automatically become due and payable pursuant to the terms of the Credit Agreement. The obligations of the Company under the Credit Agreement are jointly and severally guaranteed by the Company's current and future wholly-owned domestic subsidiaries, and are secured by cash, general intangibles, instruments, securities, financial assets, security entitlements and other property maintained in a money market account at Synovus Bank.

In the long term, our ability to support our working capital and capital expenditure requirements will depend on many factors, including:

- the level of research and development expenses we incur as we continue to develop our eVTOL aircraft;
- capital expenditures needed to bring up our aircraft manufacturing capabilities, including for both the build out of our manufacturing facilities and component purchases necessary to build our aircraft;
- general and administrative expenses as we scale our operations; and
- sales, marketing and distribution expenses as we build, brand and market our eVTOL aircraft and UAM network.

Until such time as we can generate significant revenue from our business operations, we expect to finance our cash needs primarily through existing cash on hand, pre-delivery payments, equity financing and debt financing.

The following includes our short-term and long-term material cash requirements from known contractual obligations as of September 30, 2023:

Notes Payable

We have short-term debt obligations of $2.5 million. See Note 6 - Notes Payable to the consolidated condensed financial statements for further details on our debt.

Leases

We lease office, lab, hangar, and storage facilities in the normal course of business. Under our operating leases as noted in Note 7 - Commitments and Contingencies to the consolidated condensed financial statements, we have current obligations of $5.4 million and long-term obligations of $19.6 million.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended September 30,	
	2023	2022
	(In millions)	
Net cash provided by (used in):		
Operating activities	$ (187.6)	$ (133.2)
Investing activities	$ 429.7	$ (491.2)
Financing activities	$ 154.3	$ (7.1)

Cash Flows Used in Operating Activities

We continue to experience negative cash flows from operations as we are still working to design, develop, certify, and bring up manufacturing of our eVTOL aircraft and thus have not generated any revenues from either of our planned lines of business. Our cash flows from operating activities are significantly affected by our cash investments to support the growth of our research and development activities related to our eVTOL aircraft, as well as the general and administrative functions necessary to support those activities and operations as a publicly traded company. Our operating cash flows are also impacted by the working capital requirements to support growth and fluctuations in personnel-related expenditures, accounts payable, accrued interest and other current liabilities, and other current assets.

Net cash used in operating activities during the nine months ended September 30, 2023 was $187.6 million, resulting from a net loss of $348.8 million, adjusted for non-cash items consisting primarily of a $75.3 million non-cash charge comprised of a $26.3 million non-cash charge associated with the Initial Vested Share Tranche and a $49.0 million non-cash charge for the unvested portion of the Warrant that is contingent and may never be realized, relating to the Technology and Dispute Resolution Agreements, $24.8 million in stock-based compensation which includes the reversal of $59.1 million of stock-based compensation expense related to the forfeiture of one of the Founder Grants, a loss of $25.8 million due to a change in fair value of our warrant liabilities, and $13.1 million of research and development warrant expense related to the warrants issued to Stellantis (see Note 9 - Stock-Based Compensation to our consolidated condensed financial statements). The net cash provided by changes in our net operating assets and liabilities of $18.2 million was primarily related to a $10.3 million increase in accounts payable due to timing of payments and a $5.9 million decrease in prepaid expenses, primarily due to the release of payments from the receipt of goods and services during the period.

Net cash used in operating activities during the nine months ended September 30, 2022 was $133.2 million, resulting from a net loss of $221.9 million, adjusted for non-cash items consisting primarily of $76.3 million in stock-based compensation primarily related to the Founder Grants and $6.0 million in other warrant expense related to the United warrants (see Note 9 - Stock-Based Compensation to the consolidated condensed financial statements), partially offset by a gain of $14.4 million primarily due to a change in fair value of our warrant liabilities. The net cash provided by changes in our net operating assets and liabilities of $13.3 million was primarily related to a $10.3 million increase in other long-term liabilities mainly due to the $10.0 million pre-delivery payment from United (see Note 9 - Stock-Based Compensation to the consolidated condensed financial statements) and a $5.9 million increase in accrued expenses and other current liabilities mainly due to legal fees and expenses. These increases were partially offset by a $3.2 million increase in prepaid expenses, primarily due to prepaid research and development-related expenses.

Cash Flows Provided by (Used in) Investing Activities

Net cash provided by investing activities during the nine months ended September 30, 2023 was $429.7 million, driven by proceeds from maturities of short-term investments of $465.0 million, offset by purchases of property and equipment of $35.3 million within the period.

Net cash used in investing activities during the nine months ended September 30, 2022 was $491.2 million, driven by purchases of short-term investments of $487.6 million and purchases of property and equipment of $3.6 million within the period.

Cash Flows Provided by (Used in) Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2023 was $154.3 million, driven by gross proceeds from the PIPE financing of $145.0 million, proceeds from the issuance of common stock to Stellantis of $25.0 million, and proceeds from shares issued under the Employee Stock Purchase Plan of $1.3 million (see Note 9 - Stock-Based Compensation to the consolidated condensed financial statements), offset by the repayment of term loans to Silicon Valley Bank, a division of First-Citizens Bank (the “Silicon Valley Bank Term Loans”) for $7.5 million, payments of offering costs in connection with the PIPE financing for $6.0 million, and payments for taxes related to net share settlement of equity awards for $3.5 million.

Net cash used in financing activities during the nine months ended September 30, 2022 was $7.1 million, consisting of the repayment of the Silicon Valley Bank Term Loans for $7.5 million, offset by $0.4 million proceeds from the exercise of stock options.

Critical Accounting Policies and Estimates

Our audited consolidated condensed financial statements and accompanying notes set forth in the Company’s Annual Report on Form 10-K filed with the SEC on March 15, 2023 have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these consolidated condensed financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included under Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report. There have been no material changes in our policies from those previously discussed in our Annual Report.

Recent Accounting Pronouncements

See Note 3 - Summary of Significant Accounting Policies to the consolidated condensed financial statements included elsewhere in this Quarterly Report for a discussion about accounting pronouncements recently adopted and recently issued not yet adopted.

Credit Risk

Financial instruments, which subject us to concentrations of credit risk, consist primarily of cash, cash equivalents, and short-term investments. Our cash and cash equivalents are held at several long-standing financial institutions located in the United States of America. At times, cash account balances with any one financial institution may exceed Federal Deposit Insurance Corporation insurance limits ($250 thousand per depositor per institution). We have not experienced any losses due to these excess deposits and believe this risk is not significant. Our short-term investments consisted of high quality, investment grade marketable securities and were held at a major financial institution located in the United States. We have established guidelines regarding diversification of our investments and their maturities that are designed to preserve principal and achieve liquidity requirements. We review these guidelines and modify them as necessary based on updated liquidity needs and changes in our operations and financial position.

Emerging Growth Company and Smaller Reporting Company Status

Section 107(b) of the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”) provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Atlas initially elected, and we currently take advantage of the extended transition period to comply with new or revised accounting standards and to adopt certain of the reduced disclosure requirements available to emerging growth companies. As a result of the accounting standards election, we are not currently subject to the same implementation timeline for new or revised accounting standards as other public companies that are not emerging growth companies which may make comparison of our financials to those of other public companies more difficult.

We have also elected to take advantage of some of the reduced regulatory and reporting requirements of emerging growth companies pursuant to the JOBS Act so long as we qualify as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

Additionally, we are currently a “smaller reporting company” as defined in Item 10(f)(1) of Regulation S-K. Smaller reporting companies may take advantage of certain reduced disclosure obligations, including, among other things, providing only two years of audited financial statements.

Because the market value of our common stock held by our non-affiliates as of June 30, 2023, exceeded $700.0 million, we will generally lose the ability to rely on the scaled disclosure and other benefits associated with emerging growth company status and smaller reporting company status in our periodic reports and other filings with the SEC during the year ending December 31, 2024.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to market risk for changes in interest rates applicable to our short-term investments. We had cash, cash equivalents, and restricted cash totaling $468.7 million as of September 30, 2023. Cash equivalents were invested in money market funds. The primary objectives of our investment activities are to preserve principal and achieve liquidity requirements. We do not enter into investments for trading or speculative purposes. Due to the relatively short-term nature of our investment portfolio, a hypothetical 100 basis point change in interest rates would not have had a material impact on the fair value of our portfolio for the periods presented.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2023, our disclosure controls and procedures were ineffective, due to the material weaknesses described below.

However, after giving full consideration to these material weaknesses, and the additional analyses and other procedures that we performed to ensure that our consolidated condensed financial statements included in this Quarterly Report were prepared in accordance with U.S. GAAP, our management has concluded that our consolidated condensed financial statements included in this Quarterly Report fairly present, in all material respects, our financial position, results of operations, and cash flows for the periods presented.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual and interim financial statements will not be detected or prevented on a timely basis.

In connection with the preparation and audit of our financial statements, we identified certain control deficiencies in the design and operation of our internal control over financial reporting that constituted material weaknesses. The material weaknesses are:

- We did not design and maintain an effective control environment commensurate with our financial reporting requirements. We lack a sufficient number of trained professionals with (i) an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately, and (ii) an appropriate level of knowledge and experience to establish effective processes and controls. Additionally, the limited personnel also resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of financial reporting objectives, as demonstrated by, among other things, insufficient segregation of duties in our finance and accounting functions.

The material weakness in the control environment contributed to the following additional material weaknesses:

- We did not design and maintain an effective risk assessment process at a precise enough level to identify new and evolving risks of material misstatement in our financial statements. Specifically, changes to existing controls or the implementation of new controls have not been sufficient to respond to changes to the risks of material misstatement to financial reporting.

- We did not design and maintain formal accounting policies, procedures and controls to achieve complete, accurate and timely financial accounting, reporting and disclosures, including controls over the preparation and review of business performance reviews, account reconciliations and journal entries.

- We did not design and maintain effective controls over information technology ("IT") general controls for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain:

    - user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate company personnel;

    - program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized, and implemented appropriately; and

    - computer operations controls to ensure that data backups are authorized and monitored.

These material weaknesses resulted in a revision to our consolidated condensed financial statements for the period ended March 31, 2021 to reclassify certain costs within operating expenses from research and development expense to other warrant expense and immaterial errors to our previously issued consolidated financial statements which were corrected in the consolidated financial statements as of and for the year ended December 31, 2022. Additionally, each of these material weaknesses could result in a misstatement of substantially all of our accounts or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected.

Remediation Measures

We are taking the steps we believe are necessary to remediate these material weaknesses to comply with the rules and regulations of the SEC regarding compliance with Section 404(a) of the Sarbanes-Oxley Act. Management, with the participation of our Board of Directors and its Audit Committee, is engaged in remediation activities to address the material weaknesses described above. Those remediation measures are ongoing and include the following:

- We prepared a remediation plan for each of the material weaknesses and trained process owners, developed new controls, enhanced existing controls and evaluated process adoption, and are monitoring results;

- We hired a new Chief Financial Officer in February 2022 and have hired and plan to continue to hire additional accounting, human resources and payroll, and IT personnel to bolster our accounting and IT capabilities and capacity, and to establish and maintain our internal controls;

- We have implemented and continue to implement controls to formalize roles and review responsibilities that align with our team's skills and experience and to ensure segregation of duties;

- We engaged third-party professionals to design and implement a formal risk assessment process and identified and evaluated changes in our internal controls;

- We have implemented formal processes, policies, and procedures supporting our financial close process, including establishing and reviewing thresholds for business performance reviews, formalizing procedures over the review of financial statements, and creation of standard balance sheet reconciliation templates and journal entry controls;
- We continue to design and implement IT general controls, including controls over the review and updating of user access rights and privileges and implementing more robust IT policies and procedures over change management, data backup authorization and computer operations; and
- We implemented a new enterprise resource planning (“ERP”) system in February 2023 that is expected to be capable of automating some of our manual financial reporting processes, enhancing our information technology control environment, and mitigating some of the internal control gaps and limitations that cannot be addressed by our current system.

We believe we are making progress toward achieving the effectiveness of our internal control over financial reporting and disclosure controls and procedures. The actions that we are taking are subject to ongoing senior management review, as well as oversight by the audit committee of our board of directors. We will not be able to conclude whether the steps we are taking will fully remediate these material weaknesses in our internal control over financial reporting until we have completed our remediation efforts including evaluation of their ongoing effectiveness for a sufficient period of time. We may also conclude that additional measures may be required to remediate the material weaknesses in our internal control over financial reporting, which may necessitate additional implementation and evaluation time. We will continue to assess the effectiveness of our internal control over financial reporting and take steps to remediate the known material weaknesses expeditiously.

Changes in Internal Control Over Financial Reporting

We are taking actions to remediate the material weaknesses relating to our internal control over financial reporting. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 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

For a description of our material pending legal proceedings, see Note 7 - Commitments and Contingencies of the notes to the consolidated condensed financial statements, which is incorporated herein by reference. From time to time, we may bring or be subject to other legal proceedings and claims in the ordinary course of business. While management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our financial position, results of operations or statement of cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. If an unfavorable final outcome were to occur, it may have a material adverse impact on our financial position, results of operations or cash flows for the period in which the effect can be reasonably estimated.

Item 1A. Risk Factors

Investing in our securities involves risks. Risk factors describing the major risks to our business can be found under Part I, Item 1A, "Risk Factors" in our Annual Report and in Part II, Item 1A, "Risk Factors" of our Q2 10-Q. You should consider carefully the risks and uncertainties described therein, together with all of the other information in this Quarterly Report, including Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated condensed financial statements and related notes, before deciding whether to purchase any of our securities. Our business, results of operations, financial condition, and prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. If any of these risks actually occur, our business, results of operations, financial condition, and prospects could be materially and adversely affected. Unless otherwise indicated, references in these risk factors to our business being harmed will include harm to our business, reputation, brand, financial condition, results of operations, and prospects. In such event, the market price of our securities could decline, and you could lose all or part of your investment.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Use of Proceeds

On October 30, 2020, Atlas consummated its initial public offering of 50,000,000 units. The units were sold at a price of $10.00 per unit, generating total gross proceeds of $500.0 million from the initial public offering. The securities sold in the offering were registered under the Securities Act of 1933, as amended (the "Securities Act") on a registration statement on Form S-1 (No. 333-249289). The registration statement became effective on October 27, 2020.

Simultaneously with the consummation of the initial public offering, Atlas consummated the sale of 8,000,000 private placement warrants, at a price of $1.50 per warrant, to Atlas Crest Investment LLC, generating gross proceeds to Atlas of $12.0 million. Such securities were issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act.

Atlas incurred $10.5 million in offering costs for its initial public offering including $10.0 million of underwriting fees and $0.5 million of other costs. Following the initial public offering and the sale of the private placement warrants, a total of $500.0 million was deposited into the trust account for the purpose of effecting an initial business combination. As of August 5, 2021, the record date of the Business Combination, there was $500.1 million held in the trust account. After deducting payments to existing Atlas unit holders of $242.2 million in connection with their exercise of redemption rights, the remainder of the trust account totaling $257.6 million is now held on our balance sheet to fund our operations and continued growth.

The Business Combination generated $857.6 million in gross cash proceeds, inclusive of $600.0 million in proceeds from the related private placement financing and $257.6 million transferred from the trust account. Total direct and incremental transaction costs aggregated $81.8 million, of which $10.9 million was expensed as part of the Business Combination, $55.8 million was recorded to additional paid-in-capital as equity issuance costs, and the remaining $15.1 million was settled through the issuance of shares of our Class A common stock.

There has been no material change in the planned use of proceeds noted above from those disclosed in the final prospectus (File No. 333-254007), dated August 11, 2021, which was declared effective by the SEC on August 11, 2021.

Sales of Unregistered Securities

On August 10, 2023, we entered into subscription agreements with certain investors providing for the private placement of 26,173,286 shares of Common Stock at a purchase price of $5.54 per share (the “PIPE Share Price”), resulting in net proceeds of approximately $139.0 million, after deducting offering costs. On the same date, the Company issued 1,985,559 shares of Common Stock at the PIPE Share Price to an outside vendor to satisfy $11.0 million of the Company’s outstanding payable to that vendor.

On August 15, 2023, we issued Wisk Aero LLC a warrant to purchase up to 13,176,895 shares of Common Stock with an exercise price of $0.01 per share. The Warrant shall vest and be exercisable as follows: (i) immediately as to 4,512,636 shares of Common Stock (the “Initial Vested Share Tranche”), and (ii) for up to 8,664,259 shares of Common Stock as determined six months from entry into the Agreement. See Note 7 - Commitments and Contingencies to the consolidated condensed financial statements for additional information.

These securities issuances were made in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit	Description
4.1†	Warrant to Purchase Shares of Archer, dated August 15, 2023, by and between Archer and WiskAero LLC. (incorporated by reference to Exhibit 4.9 to Registration Statement on Form S-3 (File No. 333-273996), filed August 15, 2023).
10.1†	Settlement Agreement, dated August 10, 2023, by and among Archer, The Boeing Company and Wisk Aero LLC.
10.2	Form of Subscription Agreement (incorporated by reference to Exhibit 10.1 to Form 8-K (File No. 001-39668), filed August 10, 2023).
10.3	Form of Lock-Up Agreement (incorporated by reference to Exhibit 10.2 to Form 8-K (File No. 001-39668), filed August 10, 2023).
10.4	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.3 to Form 8-K (File No. 001-39668), filed August 10, 2023).
10.5	Restricted Stock Purchase Agreement (incorporated by reference to Exhibit 4.10 to Registration Statement on Form S-3 (File No. 333-273996), filed August 15, 2023).
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, 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 Exchange Act, 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 (formatted as Inline XBRL and contained in Exhibit 101)

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report and are not deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

† Portions of this exhibit are redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

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.

ARCHER AVIATION INC.

November 9, 2023	By:	/s/ Mark Mesler
		Mark Mesler
		Chief Financial Officer
		(Principal Financial and Accounting Officer)