Prospectus Supplement No. 9 | **Filed Pursuant to Rule 424(b)(3)**
(to Prospectus dated May 22, 2024) | **Registration No. 333-278460**

QT IMAGING HOLDINGS, INC.

Up to 43,795,000 Shares of Common Stock
Up to 17,711,129 shares of Common Stock by the Selling Securityholders
889,364 Warrants to Purchase Shares of Common Stock

This prospectus supplement (this "Supplement No. 9") updates and supplements the prospectus dated May 22, 2024 (as further supplemented, the "Prospectus"), which forms a part of our Registration Statement on Form S-1 (Registration No. 333-278460). This prospectus supplement is being filed to update and supplement the information in the Prospectus related to information contained in the following reports of the Company:

- The Company's Current Report on Form 8-K as filed with the U.S. Securities and Exchange Commission (the "SEC") on November 13, 2024, which is attached hereto.

- The Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2024, as filed with the SEC on November 13, 2024, which is attached hereto.

This Supplement No. 9 updates and supplements the information in the Prospectus and is not complete without, and may not be delivered or utilized except in combination with, the Prospectus, including any amendments or supplements thereto. This Supplement No. 9 should be read in conjunction with the Prospectus and if there is any inconsistency between the information in the Prospectus and this Supplement No. 9, you should rely on the information in this Supplement No. 9.

Our Common Stock is currently listed on the Nasdaq Stock Market (the "Nasdaq") and trades under the symbol "QTI."

Investing in our securities involves a high degree of risk. You should carefully review the risks and uncertainties that are described under the heading "Risk Factors" beginning on page 17 of the Prospectus and in any applicable prospectus supplement.

Neither the SEC nor any state securities commission has approved or disapproved of the securities to be issued under the Prospectus or this Supplement No. 9 or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 14, 2024.

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 13, 2024

QT IMAGING HOLDINGS, INC.

(Exact name of Registrant as Specified in Charter)

Delaware	001-40839	86-1728920
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(IRS Employer Identification Number)

3 Hamilton Landing, Suite 160
Novato, CA 94949
(Address of principal executive offices, including Zip Code)
(650) 276-7040
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Common stock, $0.0001 par value	**QTI**	**The Nasdaq Stock Market LLC**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Item 2.02 Results of Operations and Financial Condition.

On November 13, 2024, QT Imaging Holdings, Inc. (the "Company") issued a press release announcing its financial results for the three months ended September 30, 2024. A copy of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K (this "Current Report") and is incorporated by reference herein.

The information included in Item 2.02, and Exhibit 99.1 attached hereto, is being furnished and shall not be deemed "filed" with the Securities and Exchange Commission (the "SEC") for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, and shall not be deemed incorporated by reference in any registration statement filed by the Company under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, regardless of any general incorporation language in any such filing.

Item 8.01 Other Events.

The information contained in, or incorporated into, Item 2.02 above is incorporated herein by reference.

Please refer to Exhibit 99.1 for a discussion of certain forward-looking statements included therein and the risks and uncertainties related thereto.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Exhibit No.	Description
99.1	Press release dated November 13, 2024
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

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 hereunto duly authorized.

Dated: November 13, 2024

By:	/s/ Raluca Dinu
Name:	Raluca Dinu
Title:	Chief Executive Officer

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from ___________ to ___________

Commission file number 001-40839

QT Imaging Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**86-1728920** (I.R.S. Employer Identification No.)
3 Hamilton Landing, Suite 160 **Novato, CA** (Address of Principal Executive Offices)	**94949** (Zip Code)

(650) 276-7040
Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	**QTI**	**The Nasdaq Stock Market LLC**

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

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

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

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

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

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

As of November 12, 2024, the registrant had 21,825,475 shares of common stock, $0.0001 par value per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

QT IMAGING HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash	$ 1,544,169	$ 164,686
Restricted cash and cash equivalents	20,000	20,000
Accounts receivable, net	256,886	1,290
Inventory	3,181,554	4,418,197
Prepaid expenses and other current assets	775,585	214,979
Total current assets	5,778,194	4,819,152
Property and equipment, net	122,152	490,920
Intangible assets, net	—	90,139
Operating lease right-of-use assets, net	1,020,947	1,267,121
Other assets	39,150	39,150
Total assets	$ 6,960,443	$ 6,706,482
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 768,264	$ 1,355,512
Accrued expenses and other current liabilities	3,364,217	369,651
Related party notes payable	—	705,000
Current maturities of long-term debt	887,321	4,199,362
Deferred revenue	19,841	347,619
Operating lease liabilities, current	394,208	361,305
Total current liabilities	5,433,851	7,338,449
Long-term debt	3,468,911	95,982
Related party notes payable	5,408,725	3,143,725
Operating lease liabilities	762,904	1,062,633
Warrant liability	9,783	—
Derivative liability	320,900	—
Earnout liability	700,000	—
Other liabilities	507,029	377,772
Total liabilities	16,612,103	12,018,561
Contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding		—
Common stock, $0.0001 par value; 500,000,000 and 100,000,000 shares authorized as of September 30, 2024 and December 31, 2023, respectively; 21,441,416 and 9,575,925 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively (1)	2,144	958
Additional paid-in capital (1)	22,468,801	12,457,108
Accumulated deficit	(32,122,605)	(17,770,145)
Total stockholders' deficit	(9,651,660)	(5,312,079)
Total liabilities and stockholders' deficit	$ 6,960,443	$ 6,706,482

(1) Amounts as of December 31, 2023 differ from those in prior year consolidated financial statements as they were retrospectively adjusted as a result of the accounting or the Business Combination (as defined in the Notes to Condensed Consolidated Financial Statements).

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

QT IMAGING HOLDINGS, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Revenue	$ 955,970	$ 24,657	$ 4,032,168	$ 35,404
Cost of revenue	350,667	23,799	1,792,234	73,497
Gross profit (loss)	605,303	858	2,239,934	(38,093)
Operating expenses:				
Research and development	925,214	311,829	2,492,842	1,083,373
Selling, general and administrative	2,007,277	932,124	9,873,029	3,072,720
Total operating expenses	2,932,491	1,243,953	12,365,871	4,156,093
Loss from operations	(2,327,188)	(1,243,095)	(10,125,937)	(4,194,186)
Other income (expense), net	16,995	—	(191,330)	—
Change in fair value of warrant liability	8,805	—	199,624	—
Change in fair value of derivative liability	87,200	—	4,800,000	—
Change in fair value of earnout liability	50,000	—	(700,000)	—
Interest expense, net	(1,455,306)	(132,844)	(3,149,315)	(394,714)
Net loss and comprehensive loss attributable to QT Imaging Holdings, Inc.	(3,619,494)	(1,375,939)	(9,166,958)	(4,588,900)
Less: deemed dividend related to the modification of equity classified warrants	—	—	(5,185,502)	—
Net loss and comprehensive loss attributable to common stockholders	$ (3,619,494)	$ (1,375,939)	$ (14,352,460)	$ (4,588,900)
Net loss per share - basic and diluted (1)	$ (0.17)	$ (0.14)	$ (0.77)	$ (0.48)
Weighted-average number of common shares used in computing net loss per common share (1)	21,441,416	9,541,643	18,712,468	9,533,185

(1) Amounts for the three and nine months ended September 30, 2023 and before that date differ from those in prior year condensed consolidated financial statements as they were retrospectively adjusted as a result of the accounting or the Business Combination (as defined in the Notes to Condensed Consolidated Financial Statements).

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

QT IMAGING HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Deficit
For the three and nine months ended September 30, 2024 and 2023
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, June 30, 2024	21,441,416	$ 2,144	$ 22,341,598	$ (28,503,111)	$ (6,159,369)
Stock-based compensation	—	—	127,203	—	127,203
Net loss	—	—	—	(3,619,494)	(3,619,494)
Balance, September 30, 2024	21,441,416	$ 2,144	$ 22,468,801	$ (32,122,605)	$ (9,651,660)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, June 30, 2023 (1)	9,541,643	$ 954	$ 11,606,468	$ (14,884,155)	$ (3,276,733)
Stock-based compensation	—	—	195,475	—	195,475
Net loss	—	—	—	(1,375,939)	(1,375,939)
Balance, September 30, 2023	9,541,643	$ 954	$ 11,801,943	$ (16,260,094)	$ (4,457,197)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, January 1, 2024	27,941,290	$ 27,941	$ 12,430,125	$ (17,770,145)	$ (5,312,079)
Reverse recapitalization	(18,365,365)	(26,983)	26,983	—	—
As adjusted, beginning of period (1)	9,575,925	958	12,457,108	(17,770,145)	(5,312,079)
Merger recapitalization	7,898,954	790	(9,269,955)	—	(9,269,165)
Issuance of common stock pursuant to a subscription agreement	200,000	20	705,980	—	706,000
Conversion of a note payable	359,266	36	3,233,352	—	3,233,388
Conversion of a bridge loan	100,000	10	199,990	—	200,000
Net exercise of warrants	5,594	1	(1)	—	—
Issuance of common stock in connection with the Pre-Paid Advance	1,000,000	100	1,866,184	—	1,866,284
Issuance of common stock in connection with the Cable Car Loan	180,000	18	446,315	—	446,333
Issuance of common stock related to non-redemption extension agreements	427,477	42	1,508,951	—	1,508,993
Issuance of common stock related to early investor consideration	150,000	15	529,485	—	529,500
Issuance of common stock to settle transaction expenses	1,544,200	154	5,439,703	—	5,439,857
Stock-based compensation	—	—	166,187	—	166,187
Deemed dividend related to modification of equity classified warrants	—	—	5,185,502	(5,185,502)	—
Net loss	—	—	—	(9,166,958)	(9,166,958)
Balance, September 30, 2024	21,441,416	$ 2,144	$ 22,468,801	$ (32,122,605)	$ (9,651,660)

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

QT IMAGING HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Deficit
For the three and nine months ended September 30, 2024 and 2023
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, January 1, 2023	27,580,040	$ 27,580	$ 10,136,037	$ (11,671,194)	$ (1,507,577)
Reverse recapitalization	(18,127,929)	(26,635)	26,635	—	—
As adjusted, beginning of period (1)	9,452,111	945	10,162,672	(11,671,194)	(1,507,577)
Sale of common stock and warrants in private offering, net	89,532	9	1,026,541	—	1,026,550
Stock-based compensation	—	—	612,730	—	612,730
Net loss	—	—	—	(4,588,900)	(4,588,900)
Balance, September 30, 2023 (1)	9,541,643	$ 954	$ 11,801,943	$ (16,260,094)	$ (4,457,197)

(1) Amounts as of December 31, 2023 and before that date differ from those in prior year consolidated financial statements as they were retrospectively adjusted as a result of the accounting or the Business Combination (as defined in the Notes to Condensed Consolidated Financial Statements).

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

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QT IMAGING HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Cash flows from operating activities:		
Net loss	$ (9,166,958)	$ (4,588,900)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	204,283	355,682
Stock-based compensation	166,187	612,730
Warrant modification expense	200,513	—
Provision for credit losses	1,290	—
Fair value of common stock issued in exchange for services and in connection with non-redemption agreements	3,718,349	—
Loss on issuance of common stock in connection with a subscription agreement	206,000	—
Non-cash interest	2,404,031	32,319
Non-cash operating lease expense	(20,652)	(6,184)
Loss on disposal of assets	—	124
Change in fair value of warrant liability	(199,624)	—
Change in fair value of derivative liability	(4,800,000)	—
Change in fair value of earnout liability	700,000	—
Changes in operating assets and liabilities:		
Accounts receivable	(256,886)	(18,511)
Inventory	1,525,857	42,252
Prepaid expenses and other current assets	(459,804)	(52,382)
Other assets	—	10,000
Accounts payable	(2,061,853)	935,742
Accrued expenses and other current liabilities	(768,614)	411,356
Deferred revenue	(327,778)	300,000
Other liabilities	129,257	—
Net cash used in operating activities	(8,806,402)	(1,965,772)
Cash flows from investing activities:		
Purchases of property and equipment	(34,590)	(25,995)
Net cash used in investing activities	(34,590)	(25,995)
Cash flows from financing activities:		
Proceeds from sale of common stock and warrants, net of issuance costs	—	1,017,850
Proceeds from issuance common stock pursuant to subscription agreement	500,000	—
Proceeds from long-term debt, net of issuance costs	10,525,000	—
Repayment of long-term debt	(1,243,055)	(96,669)
Repayment of bridge loans	(800,000)	—
Proceeds from related party payable	—	650,000
Proceeds from the Merger, net of transaction costs	1,238,530	—
Net cash provided by financing activities	10,220,475	1,571,181
Net increase (decrease) in cash and restricted cash and cash equivalents	1,379,483	(420,586)
Cash and restricted cash and cash equivalents, beginning of year	184,686	475,076
Cash and restricted cash and cash equivalents, end of year	$ 1,564,169	$ 54,490
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 537,571	$ —
Supplemental disclosures of noncash investing and financing activities:		
Fair value of embedded derivatives upon issuance of convertible debt	$ 5,120,900	$ —
Fair value of common stock issued with convertible debt	2,312,617	—

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

QT IMAGING HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

Transfer of equipment to inventory	289,214	—
Transfer of inventory to property and equipment	—	262,116
Extinguishment of accrued expenses in exchange for common stock	3,760,000	—
Debt discount included in accrued expenses	40,740	—
Conversion of long-term debt into common stock	3,433,388	—
Deemed dividend	5,185,502	—

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

1. The Company and Summary of Significant Accounting Policies

Nature of Operations

QT Imaging Holdings, Inc. (the "Company"), formerly known as GigCapital5, Inc. ("GigCapital5"), is incorporated in Delaware with headquarters in Novato, California. The Company is a medical device company engaged in research, development, and commercialization of innovative body imaging systems using low frequency sound waves. The Company strives to improve global health outcomes. Its strategy is predicated upon the fact that medical imaging is critical to the detection, diagnosis, and treatment of disease and that it should be safe, affordable, accessible, and centered on the patient's experience. The Company's initial product is a breast imaging system.

On March 4, 2024 (the "Closing Date" or "Merger Date"), QT Imaging, Inc. ("QT Imaging"), GigCapital5, and QTI Merger Sub, Inc. ("QTI Merger Sub") pursuant to the terms of the Business Combination Agreement (the "Business Combination Agreement") dated December 8, 2022, completed the business combination of QT Imaging and GigCapital5 which was effected by the merger of QTI Merger Sub with and into QT Imaging, with QT Imaging surviving the Merger as a wholly owned subsidiary of GigCapital5 (the "Merger," and, together with the other transaction contemplated by the Business Combination Agreement, the "Business Combination"). Upon completion of the merger on March 4, 2024, GigCapital5 changed its name to QT Imaging Holdings, Inc. and effectively assumed all of QT Imaging's material operations. Refer to Note 2 - Business Combination for more information regarding the Merger.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") applicable to interim financial statements. Accordingly, certain information related to significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of QT Imaging for the year ended December 31, 2023 and the related notes which provide a more complete discussion of the Company's accounting policies and certain other information. The December 31, 2023 condensed consolidated balance sheet was derived from QT Imaging's audited consolidated financial statements.

These unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's condensed consolidated results for the periods presented. The condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2024 are not necessarily indicative of the results to be expected for the year ending December 31, 2024 or for any other future annual or interim period.

The share and per share amounts, prior to the Merger, have been retrospectively restated as shares reflecting conversion at the exchange ratio of approximately 0.3427 established in the Business Combination Agreement.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, QT Imaging and QT Ultrasound Labs, Inc. ("QT Labs"). All intercompany balances and transactions are eliminated in consolidation.

Liquidity

The Company has incurred net operating losses and negative cash flows from operations since its inception and had an accumulated deficit of $32,122,605 as of September 30, 2024. During the nine months ended September 30, 2024, the Company incurred a net loss of $9,166,958 and used $8,806,402 of cash in operating activities, which includes repayment of net liabilities assumed from the Business Combination. The Company expects to continue to incur losses, and its ability to achieve and sustain profitability will depend on the achievement of sufficient revenues to

support the Company's cost structure. The Company may never achieve profitability and, unless and until it does, the Company will need to continue to raise additional capital.
In connection with the Business Combination, the Company entered into various agreements to obtain financing through the issuance of debt and through stock subscription agreements. On March 4, 2024, the Company received the Pre-Paid Advance (as defined in Note 2), net of issuance costs, of $9,025,000 from YA II PN, LTD ("Yorkville") pursuant to the Standby Equity Purchase Agreement (the "SEPA") and issued Yorkville a promissory note (the "Yorkville Note") in the amount of $10.0 million for such Pre-Paid Advance, $500,000 of cash proceeds from an investor related to a stock subscription agreement, and $1,500,000 in cash proceeds through a note payable from Funicular Funds, LP. See Note 8. Long-Term Debt. The SEPA provides the Company with access to an additional $40 million of potential capital through the issuance of common stock to Yorkville. During the time the Company has a balance under the Yorkville Note, additional advances under the SEPA can be received with written consent of Yorkville or upon a Trigger Event (as defined in Note 8) which, following the effectiveness of the Registration Statement on Form S-1 that the Company filed to register the shares to be issued pursuant to the SEPA, occurs when the daily volume-weighted average price is less than the Floor Price (as such term is defined in the Yorkville Note) for five consecutive trading days, which prior to October 31, 2024, was $0.8768 per share. As previously disclosed in a Current Report on Form 8-K with the SEC on September 13, 2024, a Trigger Event occurred on September 11, 2024, following which on September 13, 2024, the Company made a payment to Yorkville on the Yorkville Note of $1,521,581 which included $1,145,407 as repayment of principal. Additionally, and as previously disclosed in a Current Report on Form 8-K with the SEC on September 30, 2024, the Company and Yorkville executed an amendment on September 26, 2024 to extend the maturity date of the Yorkville Note from June 4, 2025 to December 15, 2025 and decreased the monthly principal payment obligations of $500,000 related to the Trigger Event beginning on January 15, 2025 (see Note 8 for more detail). Subsequently, on October 31, 2024, the Company and Yorkville executed a second amendment to extend the maturity date of the Yorkville Note to March 31, 2026 and reduced the Floor Price to $0.50 per share. On November 4, 2024, Yorkville converted $254,593 in principal amount of the Yorkville Note, and following this conversion and the prior repurchase of principal, the remaining principal balance of the Yorkville Note is $8.6 million (see Note 16). Subsequent to the date of these condensed consolidated financial statements, the Company executed a securities purchase agreement with related parties for the issuance of shares of common stock plus warrants for the purchase of common stock as a Private Investment in Public Equity (the "PIPE") with an aggregate purchase price of $2.56 million, the closing of which will occur by November 29, 2024. Management believes that the additional cash received from the PIPE and the financing arrangement under the SEPA and the Yorkville Note will be sufficient to fund the Company's current operating plan for at least the next 12 months.

The Company's future capital requirements will depend on many factors, including the Company's growth rate, the timing and extent of its spending to support research and development activities, purchasing inventory to meet its growth plan, and the timing and cost to enhance commercialized existing products. In the event that additional financing is required from outside sources, the Company may not be able to raise it on terms acceptable to the Company, or at all. Any additional debt financing obtained by the Company in the future could also involve restrictive covenants relating to the Company's capital-raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Additionally, if the Company raises additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, its existing stockholders could suffer significant dilution in their percentage ownership of the Company, and any new equity securities the Company issues could have rights, preferences and privileges senior to those of holders of the Company's common stock. If the Company is unable to obtain adequate financing or financing on terms satisfactory to the Company when the Company requires it, the Company's ability to continue to grow or support its business and to respond to business challenges could be significantly limited.

Reclassification

Certain reclassifications have been made to the prior year condensed consolidated statement of operations and comprehensive loss to conform to the current year presentation. The reclassification had no impact on the previously reported condensed consolidated balance sheet, statement of stockholders' deficit or cash flows.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. In addition, any change in these estimates or their related assumptions could have an adverse effect on the Company’s operating results.

Business Risk and Concentration of Credit Risk and Supply Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. The majority of the Company’s cash is invested in U.S. dollar deposits with a reputable bank in the United States. Management believes that minimal credit risk exists with respect to the financial institution that holds the Company’s cash. At times, such cash may be in excess of insured limits established by the Federal Deposit Insurance Corporation.

The Company performs ongoing credit evaluations of its customers and generally does not require collateral for accounts receivable. Payment terms range from cash in advance to 30 days from delivery of products or services but may fluctuate depending on the terms of each specific contract.

Significant customers represent 10% or more of the Company’s total revenue or accounts receivable, net balance for the period ended as of each reporting date. For each significant customer, revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable are as follows:

	Accounts Receivable, Net		Revenue			
			Three Months Ended September 30,		Nine Months Ended September 30,	
	September 30, 2024	December 31, 2023	2024	2023	2024	2023
Customers:						
Customer A	96 %	*	96 %	*	65 %	*
Customer B	*	*	*	*	23 %	*
Customer C	*	*	*	*	10 %	*
Customer D, related party	*	*	*	*	*	18 %
Customer E	*	*	*	*	*	14 %
Customer F	*	100 %	*	*	*	*
Customer G	*	*	*	77 %	*	54 %
Customer H	*	*	*	16 %	*	11 %
	96 %	100 %	96 %	93 %	98 %	97 %

*Total less than 10% for the period.

There are inherent risks whenever a large percentage of total revenue is concentrated in a limited number of customers. Should a significant customer which is a party to a contract with the Company under which the Company derives revenue terminate or fail to renew its contracts with the Company, in whole or in part, for any reason, or experience significant financial or operating difficulties, it could have a material adverse effect on the Company’s financial condition and results of operations. In general, a customer that makes up a significant portion of revenues in one period, may not make up a significant portion in subsequent periods. However, as the Company has entered into a Distribution Agreement with NXC Imaging, Inc. (“NXC”) on June 18, 2024, by which the Company appointed NXC as the exclusive reseller to market, advertise, and resell certain equipment in the U.S. and U.S. territories, the Company expects that NXC will make up a significant portion of revenues in each period in which such Distribution Agreement is in effect. Customer A in the concentration table above is NXC, which resold the Company’s scanner to two clinics during the three months ended September 30, 2024 and six clinics during the nine months ended September 30, 2024.

Certain components and services used to manufacture and develop the Company’s products are presently available from only one or a limited number of suppliers or vendors. The Company’s QT Breast Scanner has more than six hundred components, of which less than five components have such dependencies on limited suppliers or vendors. The loss of any of these suppliers or vendors would potentially require a significant level of hardware and/or software development efforts to incorporate the products or services into the Company’s product.

Cash and Cash Equivalents

The Company considers all short-term investments with a maturity of three months or less when purchased to be cash equivalents. The Company had restricted cash equivalents of $20,000 as of September 30, 2024 and December 31, 2023.

Restricted Cash

Restricted cash is comprised of cash held in an account subject to a collateral agreement to be used for the Company's corporate credit card program.

Accounts Receivable, Net

Accounts receivable are carried at the amount due. Accounts receivable are written off when management deems all realistic efforts to collect the amount outstanding have been exhausted. A provision for credit losses is estimated by management based on evaluations of its historical bad debt and current collection experience. As of September 30, 2024 and December 31, 2023, an allowance for credit losses was not required. Write-offs of accounts receivable were not significant during the three and nine months ended September 30, 2024 and 2023.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the weighted-average cost method. The Company periodically reviews the value of items in inventory and provides write-offs of inventory that is obsolete. Appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable value. Once inventory has been written down below cost, it is not subsequently written up.

Property and Equipment, Net

Property and equipment, net are recorded at cost, less accumulated depreciation. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to current operations as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful lives of the assets.

Leases

The Company primarily enters into leases for office space that are classified as operating leases. The Company determines if an arrangement is or contains a lease at inception. The Company accounts for leases by recording right-of-use ("ROU") assets and lease liabilities on the condensed consolidated balance sheets in the captions operating lease right-of-use assets, net and operating lease liabilities, respectively. The lease term includes the non-cancelable period of the lease plus any additional periods covered by an option to extend that the Company is reasonably certain to exercise. The Company's leases do not include substantial variable payments based on an index or rates. The Company's lease agreements do not contain any significant residual value guarantees or material restrictive covenants.

The Company's leases do not provide a readily determinable implicit discount rate. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in similar economic environments. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The lease payments related to the next 12 months are included in operating lease liabilities, current on the condensed consolidated balance sheets. The Company recognizes a single lease cost on a straight-line basis over the term of the lease, and the Company classifies all cash payments within operating activities in the condensed consolidated statements of cash flows.

The Company did not have any finance leases as of September 30, 2024 or December 31, 2023.

Intangible Assets, Net

The Company's intangible assets are comprised of patents with a useful life of 12 years. Patents are amortized on a straight-line basis over their useful life.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of an asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. Management has reviewed the Company's long-lived assets and recorded no impairment charge for the three and nine months ended September 30, 2024 and 2023.

Fair Value Measurements

The Company applies the requirements of the fair value measurements framework, which establishes a hierarchy for measuring fair value and requires enhanced disclosures about fair value measurements. The fair value measurement guidance 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 at the measurement date. The fair value measurement guidance also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy in which these assets and liabilities must be grouped based on significant levels of inputs as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.

Level 3: Unobservable inputs in which there is little or no market data, which requires the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Debt and Debt Issuance Costs

The Company evaluates its financial instruments to determine if they are freestanding financial instruments. The Company also evaluates its convertible debt for embedded derivatives. Embedded provisions (like conversion options) are assessed to determine if they qualify as embedded derivatives that require separate accounting.

Debt issuance costs are recorded as a reduction to the carrying amount of the debt and are amortized to interest expense using the effective interest method. Debt is classified as short-term or long-term based on the term of the note.

Revenue Recognition

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration the Company expects to be entitled to receive in exchange for these goods or services.

The Company determines revenue recognition through the following steps:

1) Identification of the contract, or contracts, with a customer

   The Company considers the terms and conditions of the contract in identifying the contracts. The Company determines a contract with a customer to exist when the contract is approved, each party's rights regarding the goods or services to be transferred can be identified, the payment terms for the goods or services can be identified, it has been determined the customer has the ability and intent to pay, and the contract has commercial substance. At contract inception, the Company will evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract includes more than one performance obligation. The Company applies judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

2) Identification of the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or services either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. The Company's performance obligations consist of (i) product sales, (ii) maintenance contracts and (iii) other services including training.

3) Determination of the transaction price

The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to the customer. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. The Company's contracts do not contain a significant financing component.

4) Allocation of the transaction price to the performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price.

5) Recognition of revenue when, or as a performance obligation is satisfied

For product sales and services, revenue is recognized at the time the related performance obligation is satisfied by transferring the control of the promised goods or services to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. Training and maintenance services are generally recognized upon invoicing in amounts that correspond directly with the value to the customer of the performance completed to date which primarily includes professional service arrangements entered on a time and materials basis.

All of the revenue recognized by the Company during the three and nine months ended September 30, 2024 and 2023 was recognized at a point in time.

Revenue recognized during the three and nine months ended September 30, 2024 and 2023 is disaggregated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Product	$ 917,238	$ 6,634	$ 3,882,039	$ 12,881
Service	38,732	18,023	150,129	22,523
	$ 955,970	$ 24,657	$ 4,032,168	$ 35,404

Revenue recognized by geography during the three and nine months ended September 30, 2024 and 2023 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
United States	$ 942,265	$ 20,759	$ 4,000,590	$ 31,506
International	13,705	3,898	31,578	3,898
	$ 955,970	$ 24,657	$ 4,032,168	$ 35,404

The Company had no contract assets as of September 30, 2024 and December 31, 2023. The Company had contract liabilities of $19,841 as of September 30, 2024, which are expected to be fully recognized as revenue in 2024. The Company had contract liabilities of $347,619 as of December 31, 2023. Revenue recognized during the three and nine months ended September 30, 2024 that was previously included in contract liabilities as of December 31, 2023 was $11,905 and $27,778, respectively, while a $300,000 customer deposit previously deferred was refunded due to an order cancellation during the nine months ended September 30, 2024.

Shipping and Handling Costs

Shipping and handling activities are typically performed before the customer obtains control of the goods, and the related costs are therefore expensed as incurred. Shipping and handling costs are included in cost of revenue in the accompanying condensed consolidated statements of operations and comprehensive loss. Shipping and handling costs incurred for inventory purchases are expensed in cost of revenue when sold.

Product Warranty

The Company's products sold to customers are generally subject to warranties up to twelve months, which provides for the repair or replacement of products, at the Company's option, that fail to perform with stated specifications. The Company estimates future warranty obligations related to those products. To date, product warranty claims have not been significant.

Research and Development Costs

Research and development costs incurred by the Company include salaries, purchased services, operating materials and supplies, depreciation, and amortization, and are expensed as incurred. These costs amounted to $925,214 and $311,829 for the three months ended September 30, 2024 and 2023, respectively, and $2,492,842 and $1,083,373 for the nine months ended September 30, 2024 and 2023, respectively.

Advertising

Advertising and promotion costs are expensed as incurred. Advertising expenses were not significant for the three and nine months ended September 30, 2024 and 2023.

Grant Income

Periodically, the Company is awarded grants on a cost reimbursement basis. Costs are expensed when incurred and reimbursable on a monthly or quarterly basis with the offset booked as a contra-expense to the applicable functional area in the condensed consolidated statements of operations and comprehensive loss.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets may be reduced by a valuation allowance if it is more-likely-than-not that some or all of the deferred tax asset will not be realized. The Company annually evaluates the realizability of deferred tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the condensed consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. In accordance with this accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. There were no accrued interest and penalties during the three and nine months ended September 30, 2024 and 2023.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair market value of the award. Stock-based compensation is recognized as expense on a ratable basis over the requisite service period of the award.

The Company values stock options using the Black-Scholes option pricing model. This model requires the use of highly subjective and complex assumptions which determine the fair value of stock-based awards, including the option's expected term, stock price volatility and risk-free interest rates. Forfeitures are recorded as they occur.

Comprehensive Loss

Comprehensive loss is defined as the change in the equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive loss was equal to net loss for three and nine months ended September 30, 2024 and 2023.

Net Loss per Share

Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares and potentially dilutive common share equivalents outstanding for the period determined using the treasury-stock and if-converted methods. For the purposes of the diluted net loss per share calculation, common stock equivalents are considered to be potentially dilutive securities.

Reconciliation of net loss per share for the three and nine months ended September 30, 2024 and 2023 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss attributable to QT Imaging Holdings, Inc.	$ (3,619,494)	$ (1,375,939)	$ (9,166,958)	$ (4,588,900)
Deemed dividend related to the modification of equity classified warrants	—	—	(5,185,502)	—
Net loss attributable to common stockholders	$ (3,619,494)	$ (1,375,939)	$ (14,352,460)	$ (4,588,900)
Weighted-average number of common shares used in computing net loss per common share (1)	21,441,416	9,541,643	18,712,468	9,533,185
Net loss per share - basic and diluted (1)	$ (0.17)	$ (0.14)	$ (0.77)	$ (0.48)

The following securities were excluded from the calculation of net loss per share because the inclusion would be anti-dilutive as of September 30, 2024 and 2023:

	September 30, 2024	September 30, 2023
Common stock warrants (1)	23,889,364	401,389
Potential shares from Pre-Paid Advance	10,126,981	—
Merger consideration earnout shares	9,000,000	—
Potential shares from Cable Car Loan	750,000	—
Potential shares from convertible notes (1)	250,224	254,328
Contingently issuable shares to GigCapital5 stockholders (1)	—	260,419
Options outstanding (1)	2,072,000	1,350,432
	46,088,569	2,266,568

(1) Amounts as of December 31, 2023 and before that date differ from those in prior year consolidated financial statements as they were retrospectively adjusted as a result of the accounting or the Business Combination (as defined in the Notes to Condensed Consolidated Financial Statements).

Fair Value of Financial Instruments

The fair value of the Company's financial instruments, including cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued expenses and other current liabilities approximate their fair values because of the relatively short maturity of these instruments. The carrying value of the Company's borrowings approximates fair value based on current rates offered to the Company for instruments with similar terms.

Recent Accounting Pronouncements Adopted

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. ASU 2020-06 reduces the number of accounting models for convertible instruments and allows more contracts to qualify for equity classification. The Company adopted this guidance effective January 1, 2024, and there was no material impact on the Company's condensed consolidated financial statements upon adoption.

Recent Accounting Pronouncements

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires disclosure of incremental segment information on an annual and interim basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and requires retrospective application to all prior periods presented in the financial statements. Early adoption is permitted. The Company is currently evaluating the impact of the new standard on the condensed consolidated financial statements.

In September 2024, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This ASU is intended to improve the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. The ASU's amendments are effective for public business entities for annual periods beginning after December 15, 2024. Entities are permitted to early adopt the standard for annual financial statements that have not yet been issued or made available for issuance. Adoption is either prospectively or retrospectively, the Company will adopt this ASU on a prospective basis. The Company is currently evaluating the impact of the new standard on the condensed consolidated financial statements and related disclosures.

2. Business Combination

As described in Note 1, the Merger with GigCapital5 was consummated on March 4, 2024. On the Merger Date, QT Imaging, GigCapital5, and QT Merger Sub, consummated the closing of the transactions contemplated by the Business Combination Agreement, following the approval at an annual stockholder meeting of the stockholders of GigCapital5 held on February 20, 2024 (the "Stockholder Meeting").

The Business Combination was accounted for as a reverse recapitalization. Under this method of accounting, GigCapital5 was treated as the acquired company for financial reporting purposes. Accordingly, for accounting purposes, the Business Combination was treated as the equivalent of QT Imaging issuing shares of the net assets of GigCapital5, accompanied by a recapitalization. The shares and net loss per common share prior to the Merger have been retroactively restated as shares reflecting the exchange ratio established in the Merger (approximately 0.3427 shares of the Company's common stock for each share of QT Imaging common stock). The net liabilities of GigCapital5 have been recognized at carrying value, with no goodwill or other intangible assets recorded.

QT Imaging has been determined to be the accounting acquirer based on evaluation of the following facts and circumstances:

- QT Imaging's stockholders have a majority of the voting power of the Company;
- The majority of QT Imaging's board of directors continued to serve as directors of the Company;
- The majority of QT Imaging's management continued to serve as management of the Company;
- QT Imaging comprises the ongoing operations of the Company; and
- QT Imaging is the larger entity based on historical business activity and the larger employee base.

The following summarizes the elements of the Merger to the condensed consolidated statements of stockholders' deficit and cash flows, including the transaction funding, sources, and uses of cash:

		Recapitalization
Cash in GigCapital5 Trust Account, net of redemptions	$	13,952,525
Plus: cash in GigCapital5 operating bank account		4,829
Less: Payments made pursuant to non-redemption agreements		(10,791,550)
Less: GigCapital5 transaction costs paid from Trust		(1,073,667)
Less: Repayment of GigCapital5 related party notes		(853,607)
Net cash proceeds from GigCapital5		1,238,530
Assumed net liabilities from GigCapital5, excluding net cash proceeds		(10,507,695)
Net impact of the Merger on the condensed consolidated statement of stockholders' deficit	$	(9,269,165)

Merger Related Activities

On November 15, 2023, GigCapital5, QT Imaging and Yorkville, a Cayman Islands exempt limited partnership managed by Yorkville Advisors Global, LP, entered into the SEPA. Upon the closing of the Merger, the Company has the right, provided there is no balance outstanding under the Yorkville Note (as defined below) or, if there is a balance outstanding under a Yorkville Note, with Yorkville's prior written consent, or upon the occurrence of certain trigger events, to issue and sell to Yorkville, and Yorkville shall purchase from the Company, up to $10,000,000 in aggregate gross purchase price (the "Commitment Amount") of newly issued shares of the common stock (each such sale, an "Advance") by delivering written notice to Yorkville (each, an "Advance Notice" and the date on which the Company is deemed to have delivered an Advance Notice, the "Advance Notice Date"). As consideration for a payment of $10,000,000 (the "Pre-Paid Advance") received on March 4, 2024, the Company issued the Yorkville Note, which was issued with a 6% original issue discount. The Yorkville Note for the Pre-Paid Advance was originally due 15 months from the date of issuance, and interest accrues on the outstanding balance of the Yorkville Note at an annual rate equal to 6%, subject to an increase to 18% upon an event of default. The Yorkville Note is convertible by Yorkville into shares of the Company's common stock. On March 4, 2024, immediately prior to, and substantially concurrently with, the closing of the Business Combination, QT Imaging issued to Yorkville that number of shares of the Company which converted in the aggregate into 1,000,000 shares of the Company's common stock (the "Company Shares") upon the completion of the Merger. See Note 8.

In February 2024, GigCapital5 and QT Imaging entered into a Note Purchase Agreement (the "Cable Car Loan") with Funicular Funds, LP ("Cable Car"), pursuant to which Cable Car agreed to advance $1,500,000 at the closing of the Business Combination, as was evidenced by a promissory note that may be convertible in certain circumstances into shares of the Company's common stock at a conversion price of $2.00 per share (the "Loan"), dated March 4, 2024, by and between QT Imaging and Cable Car. The Loan does not bear interest, and is due and payable 13 months after issuance, unless the time for payment is accelerated as a result of an event of default. On March 4, 2024, as full compensation to Cable Car for the Loan to QT Imaging in lieu of any simple or in-kind interest on the Loan, QT Imaging issued to Cable Car that number of shares of the Company which at the completion of the Business Combination would be converted in accordance with the terms of the Business Combination Agreement into 180,000 shares of the Company's common stock. See Note 8.

In February 2024, GigCapital5 and QT Imaging (together the "parties") entered into a subscription agreement with William Blair & Co., L.L.C. ("William Blair") for the purchase of shares of common stock of QT Imaging. Pursuant to the subscription agreement, QT Imaging issued to William Blair in satisfaction of certain fees owed to William Blair for its services to the parties, that number of shares of QT Imaging which at the completion of the Business Combination were converted in accordance with the terms of the Business Combination Agreement into 740,000 shares of the Company's common stock. The issuance of these shares settled $2,410,000 of net assumed liabilities from the business combination with an additional transaction cost expense of $202,200 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

In February 2024, the parties agreed to amend one of the non-redemption agreements that were entered into in September 2023 ("September 2023 Non-Redemption Agreements"), pursuant to which, and in addition to the Company's common stock issuable Mizuho Securities USA, LLC ("Mizuho") under the September 2023 Non-Redemption Agreement, Mizuho received from QT Imaging, in exchange for $250,000 of services rendered by Mizuho, that number of QT Imaging's common stock that converted in accordance with the terms of the Business Combination Agreement into 100,000 shares of the Company's common stock. The issuance of these shares settled

$250,000 of net assumed liabilities from the business combination with an additional transaction expense of $103,000 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

In February 2024, QT Imaging and GigCapital5 entered into two additional subscription agreements with each of Donnelley Financial Solutions, LLC (“DFIN”) and IB Capital LLC (“iBankers”), dated as of February 23, 2024 and February 22, 2024, respectively (together, the “Subscription Agreements”), for the purchase of shares of common stock of QT Imaging. Pursuant to the Subscription Agreements, QT Imaging issued to each of DFIN and iBankers in satisfaction of $500,000 and $600,000 of fees owed to DFIN and iBankers, respectively, for their services, that number of shares of QT Imaging which at the completion of the Business Combination were converted in accordance with the terms of the Business Combination Agreement into 200,000 and 240,000 respective shares of the Company’s common stock. The issuance of these shares settled $1,100,000 of net assumed liabilities from the business combination with an additional transaction expense of $453,200 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

In February 2024, QT Imaging and LionBay Ventures (“LionBay”) entered into a Settlement and Termination Agreement (“Termination Agreement”). Pursuant to the terms of the Termination Agreement, QT Imaging terminated its Service Agreement with LionBay dated May 18, 2021 and the First Amendment of the Service Agreement dated September 9, 2021 (collectively as “Service Agreement”). In exchange for the termination of the Service Agreement and the termination of options to purchase 17,000 shares of common stock with a strike price of $8.50 per option that were issued as part of the Service Agreement, QT Imaging agreed to issue that number of shares that converted into 10,000 shares of the Company’s common stock. The issuance of these shares resulted in an additional transaction expense of $35,300 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

In February 2024, QT Imaging received $500,000 in exchange for that number of shares that converted into 200,000 shares of the Company's common stock in accordance with the terms of the subscription agreement and Business Combination Agreement. The issuance of these shares resulted in an additional transaction expense of $206,000 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

Pursuant to an amendment dated December 13, 2023, between QT Imaging and Exit Strategy Partners, LLC (“Advisor”), the Company agreed to pay for Advisor’s services in exchange for that number of shares that converted into 250,000 shares of the Company’s common stock and a total cash amount of $225,000, of which $125,000 was paid on the closing of the Business Combination on March 4, 2024 and the remaining $100,000 is due on the first anniversary of the closing of the Business Combination, which is recorded in accrued expenses and other current liabilities within the condensed consolidated balance sheet as of September 30, 2024. The total cash consideration and issuance of shares related to this amendment resulted in a transaction expense of $1,107,500 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

On March 4, 2024, as consideration for the September 2023 Non-Redemption with certain GigCapital5 stockholders (“Non-Redeeming Stockholders”), QT Imaging issued that number of shares that converted into 427,477 shares of the Company’s common stock to the Non-Redeeming Stockholders. The issuance of these shares resulted in a transaction expense of $1,508,994 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

On March 4, 2024, the Company issued to subscribers to the Stock Subscription Agreements entered into in November 2023 equal to that number of shares that resulted in such parties as stockholders of QT Imaging receiving pursuant to the Business Combination Agreement 150,000 shares of the Company's common stock. The issuance of these shares resulted in a transaction expense of $529,500 recorded as selling, general and administrative expense within the condensed consolidated statement of operations and comprehensive loss during the nine months ended September 30, 2024. No transaction expense related to this agreement was recorded during the three months ended September 30, 2024.

Merger Earnout Consideration Shares

Pursuant to the Second Amendment to Business Combination Agreement dated September 21, 2023, the Company is obliged to issue a maximum of 9,000,000 shares of Company's common stock (the “Merger Consideration Earnout Shares”) if certain triggering events and conditions are achieved during 2024, 2025, and 2026.

2024 Earnout Shares

Promptly following the date on which Company files its Quarterly Report on Form 10-Q with respect to its fiscal quarter ended September 30, 2024 with the SEC, an aggregate of 2,500,000 Merger Consideration Earnout Shares (the “2024 Earnout Shares”) will be issued to QT Imaging’s former stockholders if, and only if, on or prior to such filing date, the Company has obtained a formal U.S. Food and Drug Administration (“FDA”) clearance for breast cancer screening with respect to its breast scanning systems, which remains in full force and effect as of such filing date; provided, that the 2024 Earnout Shares shall increase by 500,000 (to an aggregate of 3,000,000) Merger Consideration Earnout Shares if, in addition, during the fifteen months ended September 30, 2024, the Company either (A) makes at least eight bona fide placements of its breast scanning systems globally or (B) has revenue of at least $4,400,000 as set forth in the condensed consolidated financial statements included in the periodic reports filed by the Company with the SEC with respect to such fifteen month period.

2025 Earnout Shares

Promptly following the date on which the Company files its Quarterly Report on Form 10-Q with respect to its fiscal quarter ended September 30, 2025 with the SEC, an aggregate of 2,500,000 Merger Consideration Earnout Shares (the “2025 Earnout Shares”) will be issued to QT Imaging’s former stockholders if, and only if, during the twelve months ended September 30, 2025, (A) the Company achieves annual revenue of at least $17,100,000 as set forth in the condensed consolidated financial statements included in the periodic reports filed by the Company with the SEC with respect to such twelve month period, and (B) the Company makes at least four placements of its breast scanning systems in the United States; provided, that the 2025 Earnout Shares shall increase by 500,000 (to an aggregate of 3,000,000) Merger Consideration Earnout Shares if at least one of the following milestones is achieved: (x) on or prior to such filing date, the Company has obtained a formal FDA clearance for a new indication for use of its breast scanning systems (other than any indication obtained prior to the beginning of the twelve months ended September 30, 2025), which remains in full force and effect as of such filing date; or (y) the Company achieves clinical-quality patient images with the Company’s open angle scanner no later than the filing date of the Quarterly Report on Form 10-Q for the third quarter of 2025.

2026 Earnout Shares

Promptly following the date on which the Company files its Quarterly Report on Form 10-Q with respect to its fiscal quarter ended September 30, 2026 with the SEC, an aggregate of 2,500,000 Merger Consideration Earnout Shares (the “2026 Earnout Shares”) will be issued to QT Imaging’s former stockholders if, and only if, during the twelve months ended September 30, 2026, (A) the Company has revenue of at least $30,000,000 as set forth in the condensed consolidated financial statements included in the periodic reports filed by the Company with the SEC with respect to such twelve month period, or (B) the VWAP of shares of common stock equals or exceeds $15.00 per share for twenty (20) of any thirty (30) consecutive trading days on the Nasdaq exchange; provided, that the 2026 Earnout Shares shall increase by 500,000 (to an aggregate of 3,000,000) Merger Consideration Earnout Shares if at least one of the following milestones is achieved on or prior to such filing date: (x) the Company has obtained a formal FDA clearance of its open angle scanner, which remains in full force and effect as of such filing date; or (y) the Company receives net positive results in bona fide clinical trials, conducted in accordance with generally accepted industry standards, for its open angle scanner, as reported no later than the filing date of the Quarterly Report on Form 10-Q for the third quarter of 2026.

The Company recorded a liability of $700,000 related to the Merger Earnout Consideration Shares within the condensed consolidated balance sheet as of September 30, 2024. See Note 3.

3. Fair Value Measurements

The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.

Level 3: Unobservable inputs which are supported by little or no market activity and which are significant to the fair value of the assets or liabilities.

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023, and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

Description:	Level	September 30, 2024	December 31, 2023
Assets:			
Certificate of deposit	2	$ 20,000	$ 20,000
Liabilities:			
Warrant liability	2	$ 9,783	$ —
Earnout liability	3	$ 700,000	$ —
Derivative liability	3	$ 320,900	$ —

Warrant Liability

The Company has determined that the warrants that were a constituent part of (i) the private placement units that were issued in a private placement sale by GigCapital5 prior to the Merger ("Private Placement Warrants") and (ii) the private placement units that were issued upon conversion of working capital notes issued by GigCapital5 prior to the Merger, which conversion occurred concurrent with the Merger ("Working Capital Note Warrants") are subject to treatment as a liability, as the transfer of the warrants to anyone other than the purchasers or their permitted transferees would result in these warrants having substantially the same terms as the warrants included in the public units that were issued by GigCapital5 prior to the Merger ("Public Warrants"). The Company determined that the fair value of each Private Placement Warrant and the Working Capital Note Warrants approximates the fair value of a Public Warrant. Accordingly, the Private Placement Warrants and Working Capital Note Warrants are valued upon observable data and have been classified as Level 2 financial instruments. As of September 30, 2024, a total of 889,364 Private Placement Warrants and Working Capital Note Warrants were outstanding at an approximate fair value of $0.011 per warrant. See Note 11.

The activity for the fair value of the warrant liability during the three and nine months ended September 30, 2024 was as follows:

	Warrant Liability	
Beginning balance, January 1, 2024	$	—
Net liabilities assumed from GigCapital5		8,894
Change in fair value		23,123
Ending balance, March 31, 2024		32,017
Increase due to warrant modification		200,513
Change in fair value		(213,942)
Ending balance, June 30, 2024		18,588
Change in fair value		(8,805)
Ending balance, September 30, 2024	$	9,783

The effect of the modification of the Private Placement Warrants and the Working Capital Note Warrants as further described in Note 11 was included within other income (expense), net in the condensed consolidated statements of operations and comprehensive loss during the nine months ended September 30, 2024.

Earnout Liability

The fair value of the Merger Consideration Earnout shares was calculated using a Monte Carlo simulation. The simulation used as significant inputs the Company's management's current assessment of placements of breast scanning systems in 2024 and 2025, likely expected values for revenues from 2024 through 2026, probabilities for regulatory approvals including FDA clearances, and probabilities of other triggering events related to the open angle scanner. The probabilities of the non-revenue triggers generally range from 0 to 25 percent with the exception of the FDA clearance for a new indication by November 14, 2025, as defined in the Business Combination Agreement, which is at 100 percent. The revenue forecast for the respective measurement periods are generally in line with the revenue triggers as defined in the Business Combination Agreement, as amended. Additional significant inputs into the simulation include the volatility of Company's equity, assets, and revenue that was derived in a manner as would be common for such simulation, and published industry operating profitability metrics. A weighted average cost of capital ("WACC") was estimated based on a venture capital rates of return on debt and equity. This WACC was used as the discount rate applicable to revenue, after applying a delivering factor to convert it from being applicable to earnings before interest and tax ("EBIT") to being applicable to revenue. This EBIT to revenue delivering factor was estimated using published industry operating profit and cost metrics.

The Monte Carlo simulation developed a distribution of projected revenues for 2024 through 2026 using a Geometric Brownian Motion framework based on a standard normal distribution of returns. The simulation also developed a distribution of potential daily common stock prices for 2026 using a Geometric Brownian Motion framework. The resulting fair value is based on the average of the number of shares that will be paid out for each triggering event over a statistically significant number of simulations.

Significant assumptions used in the valuation of the fair value of the earnout liability as of issuance on March 4, 2024 and as of September 30, 2024 were as follows:

	March 4, 2024		September 30, 2024	
Fair value of common stock	$	3.53	$	0.71
Volatility of revenue		26.0 %		23.0 %
Discount rate applicable to revenue		7.0 %		7.0 %
Risk-free rate		4.5 %		3.7 %
Risk premium		2.5 %		3.3 %
Cost of debt		15.5 %		15.5 %
Credit risk spread		11.0 %		11.9 %
Equity volatility		130.0 %		115.0 %

The activity for the fair value of the earnout liability for the three and nine months ended September 30, 2024 was as follows:

		Earnout Liability
Beginning balance, January 1, 2024	$	—
Change in fair value		1,060,000
Ending balance, March 31, 2024		1,060,000
Change in fair value		(310,000)
Ending balance, June 30, 2024		750,000
Change in fair value		(50,000)
Ending balance, September 30, 2024	$	700,000

Derivative Liability

In March 2024, the Company recorded a derivative liability related to the Pre-Paid Advance issued on March 4, 2024 pursuant to the SEPA, dated November 15, 2023, between QT Imaging and Yorkville (See Note 2 and Note 8). The Pre-Paid Advance contained the following derivative features ("Derivatives") as defined in the SEPA that were recognized at fair value:

- Monthly Payment Premium: if, any time after the Issuance Date, and from time to time thereafter, a Trigger Event occurs, then the Company shall make monthly payments of Triggered Principal Amount, Payment Premium and accrued and unpaid interest.

- Monthly Payment Discount: if, any time after the Issuance Date, and from time to time thereafter, a Trigger Event occurs, then the Company shall make monthly payments of Triggered Principal Amount minus the lesser of (x) $1,500,000 and (y) such amount of fifty percent (50%) of the Investor's net sales proceeds of the Company Shares or fifty percent (50%) of the value of the Company Shares on such date the cash payment is due.

- Variable Price Conversion Right: subject to certain limitations, at any time or times on or after the Issuance Date, the Yorkville shall be entitled to convert any portion of the outstanding and unpaid Conversion Amount into fully paid and nonassessable Common Stock in accordance with Section (3)(b), at the Conversion Price of 95% of the lowest VWAP of the Company's Common Stock during the 5 consecutive Trading Days immediately preceding the Conversion Date or the date the Holder submits an Investor Notice pursuant to and as defined in the SEPA, as applicable, or other date of determination, but not lower than the Floor Price.

- Failure to Timely Convert: if within three (3) Trading Days after the Company's receipt of an email copy of a Conversion Notice the Company shall fail to issue and deliver a certificate to the Yorkville or credit Yorkville's balance account with DTC for the number of shares of Common Stock to which the Holder is entitled upon such Yorkville's conversion of any Conversion Amount (a "Conversion Failure"), and if on or after such Trading Day the Yorkville purchases (in an open market transaction or otherwise) Common Stock to deliver in satisfaction of a sale by the Yorkville of Common Stock issuable upon such conversion that the Yorkville anticipated receiving from the Company (a "Buy-In"), then the Company shall, within three (3) Business Days after the Yorkville's request and in the Yorkville's discretion, either (i) pay cash to Yorkville in an amount equal to Yorkville's total purchase price (including brokerage commissions and other out of pocket expenses, if any) for the Common Stock so purchased (the "Buy-In Price"), or (ii) promptly honor its obligation to deliver to the Yorkville a certificate or certificates representing such Common Stock and pay cash to the Yorkville in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock, times (B) the Closing Price on the Conversion Date.

- Corporate Events: in addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of Common Stock are entitled to receive securities or other assets with respect to or in exchange for shares of Common Stock (a "Corporate Event"), the Company shall make appropriate provision to ensure that the Holder will thereafter have the right to receive upon a conversion of this Note, at the Holder's option, (i) in addition to the Common Stock receivable upon such conversion, such securities or other assets to which the Holder would have been entitled with respect to such Common Stock had such Common Stock been held by the Holder upon the consummation of such Corporate Event (without taking into account any limitations or restrictions on the convertibility of this Note) or (ii) in lieu of the Common Stock otherwise receivable upon such conversion, such securities or other assets received by the holders of Common Stock in connection with the consummation of such Corporate Event in such amounts as the Holder would have been entitled to receive had this Note initially been issued with conversion rights for the form of such consideration (as opposed to Common Stock) at a conversion rate for such consideration commensurate with the Conversion Price. Provision made pursuant to the preceding sentence shall be in a form and substance satisfactory to the Required Holders.

The initial fair value of the above Derivatives was calculated using a Monte Carlo simulation. The simulation used significant inputs, including volatility of Company's equity that was derived based on a comparable peer group of publicly traded companies and the company's stock price on the valuation date.

The total value of the derivatives reflected the combined value of the monthly payment premium, reduction to that premium by the payment discount, and the value of the conversion right. The values of the failure to timely convert and corporate event features were deemed to be de minimis.

Significant assumptions used in the valuation of the fair value of the derivative liability as of issuance on March 4, 2024 and as of September 30, 2024 were as follows:

	March 4, 2024	September 30, 2024
Fair value of common stock	$ 3.53	$ 0.71
Term in years	1.25	1.23
Volatility	130.0 %	115.0 %
Risk-free rate	4.9 %	3.9 %
Debt discount	30.0 %	30.0 %

The activity for the fair value of the derivative liability during the three and nine months ended September 30, 2024 was as follows:

	Derivative Liability
Beginning balance, January 1, 2024	$ —
Fair value at issuance	5,120,900
Change in fair value	(2,983,100)
Ending balance, March 31, 2024	2,137,800
Change in fair value	(1,729,700)
Ending balance, June 30, 2024	408,100
Change in fair value	(87,200)
Ending balance, September 30, 2024	$ 320,900

4. Inventory

Inventory consisted of the following as of September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
Raw materials	$ 2,600,114	$ 2,529,364
Work in process	74,540	1,627,802
Finished Goods	506,900	261,031
Total	$ 3,181,554	$ 4,418,197

5. Property and Equipment, Net

Property and equipment, net consisted of the following as of September 30, 2024 and December 31, 2023:

	Useful Life	September 30, 2024	December 31, 2023
Scanners	5 Years	$ 2,254,548	$ 3,309,957
Computer and lab equipment	3-5 Years	1,384,307	1,359,491
Leasehold improvements	Various	421,266	421,266

Software	3 Years	50,374	40,599
Furniture and fixtures	7 Years	82,336	82,336
		4,192,831	5,213,649
Less: accumulated depreciation		(4,070,679)	(4,722,729)
		$ 122,152	$ 490,920

Depreciation expense was $19,508 and $76,351 for the three months ended September 30, 2024 and 2023, respectively. Depreciation expense was $114,144 and $216,272 for the nine months ended September 30, 2024 and 2023, respectively.

6. Intangible Assets, Net

Intangible assets, net consisted of the following as of September 30, 2024:

	Useful Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life Remaining
Patents	12 Years	$ 2,230,570	$ 2,230,570	$ —	0.00 Years

Intangible assets, net consisted of the following as of December 31, 2023:

	Useful Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life Remaining
Patents	12 Years	$ 2,230,570	$ 2,140,431	$ 90,139	0.50 Years

Amortization expense was $0 and $46,470 for each of the three months ended September 30, 2024 and 2023. Amortization expense was $90,139 and $139,410 for each of the nine months ended September 30, 2024 and 2023.

7. Balance Sheet Details

Prepaid expenses and other current assets consisted of the following as of September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
Prepaid insurance	$ 432,170	$ 9,808
Other	343,415	205,171
Total	$ 775,585	$ 214,979

Accrued expenses and other current liabilities consisted of the following as of September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
Accrued legal	$ 1,900,000	$ 24,729
Accrued personnel costs	899,796	120,856
Accrued excise taxes	202,341	—
Accrued advisory fee	100,000	—
Other	262,080	224,066
Total	$ 3,364,217	$ 369,651

8. Long-Term Debt

Paycheck Protection Program Loan

On February 24, 2021 and May 5, 2020, the Company received loans ("PPP Loans") from US Bank in the amounts of $1,158,265 ("Loan 2") and $1,158,266 ("Loan 1"), respectively, to fund payroll, rent and utilities through the Paycheck Protection Program ("PPP"). Original loan terms were revised by the PPP Flexibility Act of 2020. Under the terms of the PPP, up to 100% of the loan and related interest was forgivable if the proceeds were used for covered expenses and certain other requirements related to wage rates were met. For Loan 1, the Company applied for forgiveness on June 7, 2021, and received forgiveness of $873,151 in principal and $9,823 in interest from the Small Business Administration ("SBA") on June 14, 2021. For Loan 2, the Company applied for forgiveness on November 9, 2021, and received forgiveness of $930,246 in principal and $6,822 in interest on November 15, 2021.

The remaining balance of Loan 1 of $285,115 is payable in monthly installments of $6,400, including interest at 1%, beginning August 5, 2021, with the final payment due May 5, 2025. As of September 30, 2024, the total principal outstanding under Loan 1 was $51,008, all of which was current. As of December 31, 2023, the total principal outstanding under Loan 1 was $107,979, of which $76,058 was current and $31,921 was noncurrent.

The remaining balance of Loan 2 of $228,019 is payable in monthly installments of $4,605, including interest at 1%, beginning December 27, 2021, with the final payment due February 27, 2026. As of September 30, 2024, the total principal outstanding under Loan 2 was $77,691, of which $54,725 was current and $22,966 was noncurrent. As of December 31, 2023, the total principal outstanding under Loan 2 was $118,369, of which $54,308 was current and $64,061 was noncurrent.

Interest expense for Loan 1 and Loan 2 for the three months ended September 30, 2024 and 2023 was $384 and $716, respectively. Interest expense for Loan 1 and Loan 2 for the nine months ended September 30, 2024 and 2023 was $1,397 and $2,377, respectively.

The SBA may undertake a review of a loan of any size during the six-year period following forgiveness or repayment of the loan. The review may include the loan forgiveness application, as well as whether the Company received the proper loan amount. The timing and outcome of any SBA review is not known.

Convertible Notes Payable

In June 2021, the Company entered into a convertible promissory note agreement (the "Note") with USCG for advances of up to $10,000,000. The Company could have made advances on the Note up to six months after the inception of the Note unless extensions for advances were mutually agreed between both parties. The Note bore interest at 12% per annum on any amounts drawn with a maturity date of July 6, 2024. The Note was collateralized by all assets of the Company and was guaranteed by QT Labs. The terms of the Note include non-financial covenants and, as of March 4, 2024 when the Note converted, the Company was in compliance with those covenants. Through December 31, 2023, the Company issued warrants in connection with the note to purchase a total of 5,091 shares of common stock which 3,540 shares are exercisable at a price of $12.40 per share and 1,551 shares are exercisable at a price of $11.67 per share. The fair value of the warrants, along with financing fees, were recorded as debt issuance costs and presented in the condensed consolidated balance sheets as a deduction from the carrying amount of the Note. On March 4, 2024, these warrants were terminated in accordance with the Business Combination Agreement.

The Note was convertible, at the Company's option, before the Note matured upon the closing of a single transaction or a series of transactions with a minimum of $15,000,000 of cash proceeds raised in the aggregate. If elected, the conversion price is 90% of the price per share in the qualified financing. Management assessed whether the embedded features in the Note should have been bifurcated from the debt host and concluded that none of the features required to be accounted for separately from the debt instrument.

In November 2023 and in connection with the Fourth Amendment and issuance of the senior secured convertible promissory note to US Capital as part of the Securities Purchase Agreement as described below (the "US Capital Note"), the outstanding loan balances of the Note of $2,495,000 with accrued interest of $635,854 were considered extinguished. In November 2023, the Company recorded $376,086 as a loss on extinguishment in other income (expense), net in the condensed consolidated statements of operations and comprehensive loss, and includes a commission paid of $20,000, remaining unamortized debt issuance costs on the Note of $32,828 and the fair value of warrants to purchase 16,320 shares of common stock of $156,505.

As of December 31, 2023, the total Note and US Capital Note balance was $3,294,659 net of unamortized debt issuance costs of $36,194, and accrued interest of $50,037. Interest expense, including amortization of debt issuance costs, for the three and nine months ended September 30, 2024 was $0 and $88,692, respectively. Interest expense, including amortization of debt issuance costs, for the three and nine months ended September 30, 2023 was $86,238 and $256,253, respectively.

On March 4, 2024, the Note principal and related accrued interest balance of $3,233,388 and the US Capital Note principal balance of $200,000 was converted into 359,266 and 100,000 shares of common stock, respectively.

Additionally, warrants to purchase 16,320 shares of the Company's common stock were net settled into 5,594 shares of common stock.

Bridge Loan

In November 2023, the Company entered into a Securities Purchase Agreement and raised a private secured convertible bridge financing in the aggregate amount of $1,000,000 ("Bridge Loan") from five investors ("Bridge Lenders"). Each Bridge Loan of $200,000 bore no interest but had a cash option value at the date of maturity of 120%, or $240,000, of the Bridge Loan at each Bridge Lender's option. The maturity date was the closing date of the Business Combination as defined in Note 1. The Bridge Loan conversion price was at $2.00 per share on a post-business combination. On March 4, 2024, four of the five Bridge Loan holders elected the cash option and were paid an aggregate of $960,000 on the Merger Date. Interest expense related to the payment premium was $0 and $160,000 for the three and nine months ended September 30, 2024, respectively.

As of September 30, 2024, there was no amount outstanding for the Bridge Loan. As of December 31, 2023, the outstanding amount of the Bridge Loan, excluding the US Capital Note, was $774,337, net of unamortized debt issuance costs of $25,663. Interest expense from the amortization of debt issuance costs for the three and nine months ended September 30, 2024 was $0 and $25,663, respectively.

Yorkville Pre-Paid Advance

On March 4, 2024, the Company received the Pre-Paid Advance of $10,000,000 from Yorkville and issued Yorkville the Yorkville Note in the amount of $10,000,000 for such Pre-Paid Advance that was originally due 15 months from the date of issuance, and interest shall accrue on the outstanding balance of the Yorkville Note at an annual rate equal to 6%, subject to an increase to 18% upon an event of default as described in the Yorkville Note. The Yorkville Note is convertible by Yorkville into shares of the Company's common stock. As consideration for the Pre-Paid Advance, immediately prior to, and substantially concurrently with, the closing of the Business Combination, QT Imaging issued to Yorkville that number of shares of QT Imaging which converted in the aggregate into 1,000,000 shares of the Company's common stock upon the completion of the Business Combination. In accordance with Accounting Standards Codification ("ASC") 470-20, the proceeds of $10,000,000 were recorded between the promissory note and common stock less debt origination costs of $975,000, consisting of a $375,000 commitment fee for the SEPA and an original issue discount of 6% for the Yorkville Note, on a relative fair value basis. Expenses related to a structuring fee was $0 and $20,000 for the three and nine months ended September 30, 2024, respectively, and was included in other income (expense), net in the condensed consolidated statement of operations and comprehensive loss. As noted in Note 3, the Pre-Paid Advance contained Derivatives that were bifurcated and recorded a separate instrument. The initial value of the Derivatives of the $5,120,900 was recorded as a debt discount against the Pre-Paid Advance.

Under the terms of the original Yorkville Note, a "Trigger Event" shall occur if the daily VWAP is less than the Floor Price for five trading days during a period of seven consecutive trading days (a "Floor Price Trigger" and the last such day of such occurrence, a "Trigger Date"). If, at any time six months after the issuance of the Yorkville Note, a Trigger Event occurs, then the Company will be obligated to make monthly payments in an amount equal to the sum of (i) $1,500,000 of principal in the aggregate among all promissory notes issued to Yorkville (or the outstanding principal if less than such amount) (the "Triggered Principal Amount"), plus (ii) a payment premium of 5% in respect of such Triggered Principal Amount, and (iii) accrued and unpaid interest hereunder as of each payment date beginning on the 5th trading day after the Trigger Date and continuing on the same day of each successive calendar month to Yorkville pursuant to the terms of the Yorkville Note. However, in the event that the Company shall be required to make such cash payments to Yorkville under the Yorkville Note as a result of the occurrence of a Trigger Event, the Company shall be entitled upon written notice to Yorkville, to direct that Yorkville (i) if Yorkville has sold the Company Shares that it received upon the completion of the Merger to apply, in accordance with the terms of the Yorkville Note, up to 50% of Yorkville's net sale proceeds of the Company Shares to satisfy, in part or in whole, the Triggered Principal Amount of such cash payments due to Yorkville or (ii) or if Yorkville has not sold the Company Shares, to apply up to 50% of the value of the Company Shares on such date the cash payment is due based on the VWAP as quoted by Bloomberg LP of the Company Shares as an offset of the Triggered Principal Amount of the cash payments due to Yorkville. The obligation of the Company to make monthly prepayments due to the occurrence of a Floor Price Triger shall cease (with respect to any payment that has not yet come due) if any time after the Trigger Date (a) the Company reduces the Floor Price to an amount that is at least 50% of the daily VWAP of the common stock or (b) the daily VWAP is greater than 110% of the Floor Price for a period of five consecutive trading days, unless a subsequent Trigger Event occurs. Furthermore, within one trading day of a Floor Price Trigger that remains after application of all amounts related to the Company Shares as described above, the Company shall reduce the Floor Price to an amount that is at least 50% of the daily VWAP of the common stock, and provide Yorkville written confirmation of such reduction of the Floor Price or be obligated to make the above monthly cash payments.

Following the effectiveness of the Registration Statement on Form S-1 that the Company filed to register the shares to be issued pursuant to the SEPA, the Floor Price for Yorkville was $0.8768 per share (See Note 16 for current Floor Price). For the first five trading days commencing after six months after the issuance of the Yorkville Note, which ended on September 11, 2024, the daily VWAP of the common stock was less than the Floor Price, and as a result, September 11, 2024 constitutes a Trigger Date, and on that Trigger Date, a Trigger Event occurred due to a Floor Price Trigger. Accordingly, on September 13, 2024, the Company made the initial payment due to Yorkville as a result of the Trigger Event that occurred on September 11, 2024 in an amount totaling $1,521,581, the calculation of which reflects a reduction to the Triggered Principal Amount by 50% of the net sale proceeds of the Company Shares by Yorkville following the closing of the Business Combination. The total payment of $1,521,581 comprised of $1,145,407 of principal, $318,904 of accrued interest, and $57,270 of 5% early payment premium. The Company recognized the 5% early payment premium as interest expense within the condensed consolidated statement of operations and comprehensive loss during the three and nine months ended September 30, 2024.

On September 26, 2024, the Company and Yorkville entered into an Omnibus Amendment (the “Omnibus Amendment”), pursuant to which the Company and Yorkville agreed to amend certain terms of the Yorkville Note to reduce the Company’s obligations resulting from the occurrence of the Trigger Event. Pursuant to the Omnibus Amendment, the maturity date of the Yorkville Note was extended approximately six months from June 4, 2025 to December 15, 2025. Further, the Omnibus Amendment acknowledges the Company’s obligation to make monthly payments to Yorkville in the amount of the Trigger Principal Amount due to the occurrence of the Trigger Event and revised the Yorkville Note to provide that no further monthly payments will be owed during the period beginning on the date of the Omnibus Amendment and ending on January 15, 2025. In exchange for this relief, beginning on January 15, 2025, and continuing on the same day of each successive calendar month until and including November 15, 2025, whether or not a Trigger Event has occurred and is continuing as of such dates, the Company will make monthly payments in an amount equal to $500,000 plus the payment premium of 5% plus accrued and unpaid interest under the Yorkville Note as of each such payment date. Such monthly payments will not be reduced or offset by any amount, including, but not limited to, any net sales proceeds of the Company Shares or any value of the Company Shares based on the VWAP as quoted by Bloomberg, LP. The Omnibus Amendment also provided that 100% of the proceeds of the sale of the remaining 400,000 Company Shares held at the time of entry into the Omnibus Amendment by Yorkville shall be retained by Yorkville and shall not be used to offset or reduce any amounts owed under the Yorkville Note, or to otherwise benefit the Company in any way. The Omnibus Amendment also provides that in the event that the Company’s common stock is delisted from trading on the Nasdaq Stock Market, Yorkville consents to the occurrence of such delisting from the Nasdaq Stock Market, if it is to happen, and that it will not constitute an Event of Default as defined per the Omnibus Amendment, provided that (i) the Company uses its best efforts to have its common stock relisted on the Nasdaq Stock Market as soon as possible and (ii) the Company’s common stock is listed on the OTC Markets’ OTCQX market tier within 30 days in the event that a delisting from the Nasdaq Stock Market occurs. The Omnibus Amendment was accounted for as a troubled debt restructuring, resulting in a prospective adjustment to the effective interest rate in accordance with ASC 470-60.

As of September 30, 2024, the outstanding amount of the Yorkville Note was $2,980,159 net of the unamortized debt discount of $5,874,434, and accrued interest of $24,744. Interest expense, including amortization of debt issuance costs, for the three and nine months ended September 30, 2024 was $1,244,332 and $2,431,398, respectively.

Cable Car Loan

In February 2024, GigCapital5 and QT Imaging entered into the Cable Car Loan with Cable Car, pursuant to which Cable Car agreed to advance $1,500,000 at the closing of the Business Combination, as was evidenced by the Loan, dated March 4, 2024, by and between QT Imaging and Cable Car. The Loan does not bear interest, and is due and payable 13 months after issuance, unless the time for payment is accelerated as a result of an event of default. As full compensation to Cable Car for the Loan to QT Imaging in lieu of any simple or in-kind interest on the Loan, QT Imaging issued to Cable Car that number of shares of QT Imaging which at the completion of the Business Combination would be converted in accordance with the terms of the Business Combination Agreement into 180,000 shares of the Company's common stock. In accordance with ASC 470-20, the proceeds of $1,500,000 were recorded between the promissory note and common stock less debt origination costs of $40,740, consisting of legal fees, on a relative fair value basis.

As of September 30, 2024, the outstanding amount of the Cable Car Loan was $1,247,374, net of unamortized issuance costs of $252,626. Interest expense, including amortization of debt issuance costs, for the three and nine months ended September 30, 2024 was $108,706 and $234,445, respectively.

Future principal payments on the long-term debt as of September 30, 2024 are as follows:

Year ending December 31:		
2024 (remaining)	$	32,718
2025		10,441,377
2026		9,197
Total payments		10,483,292
Less: Unamortized debt issuance costs		(6,127,060)
Less: Current maturities of long-term debt		(887,321)
Long-term debt	$	3,468,911

9. Leases

The Company leases its operating facilities in Novato, California, under a non-cancelable operating lease through May 31, 2027. There are no options or rights to extend the term of this lease.

The following table reflects the Company's ROU assets and lease liabilities as of September 30, 2024 and December 31, 2023:

	September 30, 2024		December 31, 2023	
Assets:				
Operating lease ROU assets, net	$	1,020,947	$	1,267,121
Liabilities:				
Operating lease liabilities, current	$	394,208	$	361,305
Operating lease liabilities		762,904		1,062,633
	$	1,157,112	$	1,423,938

The following table presents supplemental cash flow information related to the Company's operating leases for the three and nine months ended:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024		2023		2024		2023	
Operating cash flows from operating leases	$	116,994	$	110,278	$	345,302	$	330,833

As of September 30, 2024, the maturity of operating lease liabilities was as follows:

Year ending December 31:		
2024 (remaining)	$	116,994
2025		476,164
2026		490,449
2027		206,864
Total payments		1,290,471
Less: Interest		(133,359)
Present value of obligations	$	1,157,112

The operating lease expense for the three months ended September 30, 2024 and 2023 was $113,748 and $113,536, respectively, of which $5,532 and $5,319, respectively, were related to leases with a term of less than 12 months. The operating lease expense for the nine months ended September 30, 2024 and 2023 was $341,031 and $340,354, respectively, of which $16,383 and $15,705, respectively, were related to leases with a term of less than 12 months.

As of September 30, 2024, the weighted-average remaining lease term was 2.7 years and the weighted-average discount rate was 8% for the nine months ended September 30, 2024. As of September 30, 2023, the weighted-average remaining lease term was 3.7 years and the weighted-average discount rate was 8% for the nine months ended September 30, 2023.

10. Contingencies

Litigation

The Company is subject to occasional lawsuits, investigations, and claims arising out of the normal conduct of business. As of the date the condensed consolidated financial statements were available to be issued, management is not aware of any pending claims that will have a material impact on the Company's condensed consolidated financial statements.

11. Stockholders' Deficit

Common Stock

The Company's common stock trades on the Nasdaq Stock Exchange under the symbol "QTI". Pursuant to the terms of the Amended and Restated Certificate of Incorporation, the Company is authorized and has available for issuance 500,000,000 shares of common stock. Immediately following the Merger, there were 21,437,216 shares of common stock outstanding with a par value of $0.0001. The holder of each share of common stock is entitled to one vote.

The Company retroactively adjusted the shares issued and outstanding prior to March 4, 2024 to give effect to the exchange ratio established in the Business Combination Agreement to determine the number of shares of common stock into which they were converted.

Common stock reserved for future issuance as of September 30, 2024 is as follows:

Common stock warrants	23,889,364
Potential shares from Pre-Paid Advance	10,126,981
Merger earnout consideration shares	9,000,000
Options outstanding under the 2024 Incentive Plan	2,072,000
Options available under the 2024 Incentive Plan	286,093
Potential shares from Cable Car Loan	750,000
Potential shares from convertible notes	250,224
	46,374,662

Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock, with a par value of $0.0001, with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. As of September 30, 2024 and December 31, 2023, there were no shares of preferred stock issued and outstanding. The Board has the authority to issue shares of preferred stock from time to time on terms it may determine, to divide shares of preferred stock into one or more series and to fix the designations, preferences, privileges, and restrictions of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, sinking fund terms, and the number of shares constituting any series or the designation of any series to the fullest extent permitted by the Delaware General Corporation Law. The issuance of preferred stock could have the effect of decreasing the trading price of common stock, restricting dividends on the capital stock of the Company, diluting the voting power of the common stock, impairing the liquidation rights of the capital stock of the Company, or delaying or preventing a change in control of the Company.

QT Imaging Private Placement Warrants

In November 2022, the Company initiated an offering to sell to a select group of accredited investors only, on a private placement basis, 342,703 units for a purchase price of $11.67 per unit (the "Units"), each Unit consisting of one share of common stock and one warrant to purchase one share of common stock (the "QT Imaging Private Placement Warrants") with an exercise price of $11.67 (the "2022 Offering"). As of December 31, 2023, the Company has issued 167,925 Units for net proceeds of $1,932,850, which 0 and 89,532 Units were issued during the three and nine months ended September 30, 2023, respectively, for total net proceeds of $0 and $1,026,550, respectively. There were no Units issued during the three and nine months ended September 30, 2024. On March 4, 2024, all outstanding QT Imaging Private Placement Warrants were deemed out of the money and terminated in accordance with the Business Combination Agreement.

QT Imaging Warrants for Common Stock

In addition to the warrants sold as part of the Units in the 2022 Offering, the Company also issued warrants to consultants and to placement agents in association with debt issuances and past private offerings. At the option of the warrant holders, the warrants can be fully settled in shares of common stock, or converted via net share settlement, in which the warrant holder will receive shares equal to the number of shares purchasable under the warrants multiplied by the difference between the fair market value of the shares and the exercise price, divided by the fair market value of the shares.

The following table represents the QT Imaging warrant activity as follows for the nine months ended September 30, 2024:

	Number of Warrants
Outstanding, January 1, 2024	422,064
Exercised	(16,320)
Terminated pursuant to business combination agreement	(405,744)
Outstanding, September 30, 2024	—

The fair value of the QT Imaging warrants issued as part of the 2022 Offering and included in stockholders' deficit in the condensed consolidated balance sheets was $0 and $462,413 for the three and nine months ended September 30, 2023, respectively. The fair value of the remaining warrant granted during the nine months ended September 30, 2023 was $15,317 and was recorded as issuance costs against the proceeds received from the 2022 Offering. There were no QT Imaging warrants issued during the three and nine months ended September 30, 2024 or during the three months ended September 30, 2023.

On March 4, 2024 and in accordance with the terms of the Business Combination Agreement, the Company cancelled and terminated all outstanding warrants that were deemed out of the money with an exercise price of or above $11.67 per warrant, including all warrants sold as part of the Units in the 2022 Offering and warrants that were issued to consultants and placement agents in association with debt issuances and past private offerings.

Warrants (Public Warrants, Private Placement Warrants and Working Capital Note Warrants)

Warrants will be exercisable at $11.50 per share, and pursuant to the terms of the warrant agreement governing such warrants (the "Warrant Agreement"), the exercise price and number of warrant shares issuable on exercise of the warrants may be adjusted in certain circumstances including in the event of a stock dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation of the Company. In addition, if (x) the Company issues additional shares of common stock or equity-linked securities for capital raising purposes in connection with the closing of its initial Business Combination at an issue price or effective issue price of less than $9.20 per share of common stock (with such issue price or effective issue price to be determined in good faith by the Company's Board of Directors, and in the case of any such issuance to the Company's Founder or its affiliates, without taking into account any Founder Shares held by it prior to such issuance), (y) the aggregate gross proceeds from such issuances represent more than 65% of the total equity proceeds, and interest thereon, available for the funding of the Company's initial Business Combination on the date of the consummation of its initial Business Combination (net of redemptions), and (z) the volume weighted average trading price of the Company's common stock during the 20 trading-day period starting on the trading day prior to the day on which the Company consummates its initial Business Combination (such price, the "Market Value") is below $9.20 per share, the exercise price of the warrants will be adjusted (to the nearest cent) to be equal to 115% of the greater of (i) the Market Value or (ii) the price at which the Company issues the additional shares of common stock or equity-linked securities.

Each warrant will become exercisable on the later of 30 days after the completion of the Merger and will expire five years after the completion of the Merger. If the Company is unable to deliver registered shares of common stock to the holder upon exercise of the warrants during the exercise period, there will be no net cash settlement of these warrants and the warrants will expire worthless, unless they may be exercised on a cashless basis in the circumstances described in the Warrant Agreement. Once the warrants become exercisable, the Company may redeem the outstanding warrants in whole and not in part at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, only in the event that the last sale price of the Company's shares of common stock equals or exceeds $18.00 per share for any 20 trading days within the 30-trading day period ending on the third trading day before the Company sends the notice of redemption to the warrant holders.

Under the terms of the Warrant Agreement, the Company has agreed to use its best efforts to file a new registration statement under the Securities Act of 1933, as amended (the "Securities Act"), following the completion of the Merger, for the registration of the shares of common stock issuable upon exercise of the warrants included in the public units issued in the Company's initial public offering (the "Public Units"), the private placement units undertaken by the Company concurrently with its initial public offering (the "Private Placement Units") and the private placement units that were issued upon conversion of working capital notes issued by the Company prior to the Merger, which conversion occurred concurrent with the Merger. The new registration statement was filed on April 1, 2024, and was declared effective by the SEC on May 22, 2024.

As of September 30, 2024, there were 23,889,364 warrants outstanding from those that were initially included as a constituent security of the Public Units and the Private Placement Units (the "PubCo Warrants") with an exercise price of $11.50 per warrant and expiring on March 4, 2029. On May 13, 2024, the exercise price of PubCo Warrants was reduced from $11.50 to $2.30 per warrant and the price per share related to the redemption events described above decreased from $18.00 per share to $3.60 per share in accordance with the terms of the Warrant Agreement as discussed above. The modification in exercise price related to the Public Warrants, which are equity classified, was accounted as a deemed dividend, which resulted in an adjustment of $5,185,502 to accumulated deficit during the nine months ended September 30, 2024. The effect of the modification in exercise price related to the Private Placement Warrants and Working Capital Note Warrants, which are liability classified, was recorded in other income (expense), net within the statements of operations and comprehensive loss and amounted to $200,513 during the nine months ended September 30, 2024.

12. Stock Incentive Plans

2024 Equity Incentive Plan

On February 15, 2024, at the Annual Meeting, the GigCapital5 stockholders considered and approved the 2024 Equity Incentive Plan (the "2024 Incentive Plan") and reserved 2,358,093 shares of common stock for issuance thereunder. The 2024 Incentive Plan became effective immediately upon the Closing of the Business Combination on March 4, 2024. The term of the 2024 Incentive Plan is 10 years. The number of shares of common stock reserved for issuance under the 2024 Incentive Plan will automatically increase on January 1 of each year, beginning on January 1, 2025 and continuing through January 1, 2035, by 5% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares as may be determined by the Board of Directors. Under the 2024 Incentive Plan, the Company may issue stock options, stock appreciation rights ("SARs"), restricted stock awards ("RSAs"), restricted stock units ("RSUs"), and performance awards ("PAs"). The term of stock options may not exceed 10 years and is subject to vesting conditions, which is subject to the option holder's continued service to the Company. The exercise price of any stock option award cannot be less than fair market value of the Company's common stock, provided, however, that an incentive stock option granted to an employee who owns more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary, must have an exercise price of no less than 110% of the fair market value of the Company's common stock and a term that does not exceed five years.

There were 2,072,000 options outstanding under the 2024 Incentive Plan as of September 30, 2024.

QT Imaging Incentive Plan

In September 2021, the Board of Directors approved and the Company adopted the Plan (the "QT Imaging Plan"). The maximum aggregate number of shares of common stock that the Company may award under the QT Imaging Plan was 7,000,000. The term of the QT Imaging Plan was originally 10 years. The QT Imaging Plan was administered by the compensation committee of the Company's Board of Directors (the "Administrator"). The Company may grant awards to eligible participants which may take the form of stock options (both incentive stock options and non-qualified stock options), stock purchase rights, restricted stock, restricted stock units and performance stock awards. Awards may be granted to employees, directors, and consultants (as defined in the QT Imaging Plan.) The term of any stock option award may not exceed 10 years and may be subject to vesting conditions, as determined by the Administrator. Incentive stock options may only be granted to employees of the Company or any subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Internal Revenue Code. The exercise price of any stock option award cannot be less than fair market value of the Company's common stock, provided, however, that an incentive stock option granted to an employee who owns more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary, must have an exercise price of no less than 110% of the fair market value of the Company's common stock and a term that does not exceed five years. Vesting is subject to the option holder's continued service to the Company, ranging up to a four-year period. Unvested options are subject to forfeiture upon termination of employment. On March 4, 2024, the QT Imaging Plan was terminated in accordance with the terms of the Business Combination Agreement and the options to purchase 1,237,681 shares of common stock were cancelled at the close of the Business Combination in accordance with the terms of the Business Combination Agreement.

The following table summarizes information regarding activity in the QT Imaging Plan and the 2024 Incentive Plan during the nine months ended September 30, 2024:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Outstanding, January 1, 2024	1,249,809	$ 24.80	6.9
Granted under the 2024 Incentive Plan	2,072,000	$ 0.74	
Cancelled	(12,128)	$ 22.40	
Terminated pursuant to Business Combination Agreement	(1,237,681)	$ 24.83	
Outstanding, September 30, 2024	2,072,000	$ 0.74	9.8
Exercisable as of September 30, 2024	—	$ —	—
Vested and expected to vest as of September 30, 2024	2,072,000	$ 0.74	9.8

During the three and nine months ended September 30, 2024, a total of 2,072,000 options were granted to employees and nonemployees with a weighted-average grant date fair value of $0.47 per share. There were no options granted during three and nine months ended September 30, 2023.

The determination of the fair value of options granted during the three and nine months ended September 30, 2024 is computed using the Black-Scholes option pricing model with the following weighted-average assumptions:

Stock price per share	$ 0.74
Expected option term (years)	5.7
Expected volatility	67.9 %
Risk-free rate of return	4.3 %
Expected annual dividend yield	— %

Option pricing models require the input of various subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility is based on the analysis of volatilities of the Company's selected public peer group over a period commensurate with the expected term of the options. The expected term of employee options represents the weighted-average period the options are expected to remain outstanding and was derived using the simplified method for awards that qualify for its "plain-vanilla" options. All awards that are outstanding are qualified for "plain-vanilla" options. The risk-free interest rate is based on the U.S. Treasury interest rates whose term in consistent with the expected life of the stock options. No dividend yield is included as the Company has not issued any dividends and do not anticipate issuing any dividends in the future.

The following table shows stock-based compensation expense by functional area in the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Research and development	$ 22,248	$ 26,313	$ 36,198	$ 78,941
Selling, general and administrative	104,955	169,162	129,989	533,789
	$ 127,203	$ 195,475	$ 166,187	$ 612,730

No stock-based compensation expense was capitalized to inventory for three and nine months ended September 30, 2024 and 2023.

As of September 30, 2024, the total unrecognized compensation cost related to all nonvested stock options was $846,533 and the weighted-average period over which it is expected to be recognized is 2.3 years.

13. National Institutes of Health Subaward

On August 18, 2022, the Company was awarded a grant of up to $1,078,347 as a subaward through the Board of Trustees of the University of Illinois for the purpose of developing a quantitative ultrasound breast scanner for identifying early response of breast cancer to chemotherapy. The grant is a cost reimbursement subaward that is allocated annually over five years, subject to the availability of funds and satisfactory progress of the project. The award expires July 31, 2027 and may be terminated by either party with 30 days written notice. Any grant proceeds received do not require repayment. As of September 30, 2024, the Company incurred total costs of $385,280 against the year one allocation of $351,994 and against the year two allocation of $194,566. During the three months ended September 30, 2024, the Company incurred costs of $3,359, of which $3,359 of grant income was recognized as an offset to research and development expense and $0 was recognized as an offset to selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive loss. During the three months ended September 30, 2023, the Company incurred costs of $151,996, of which $128,769 of grant income was recognized as an offset to research and development expense and $23,227 was recognized as an offset to selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive loss. During the nine months ended September 30, 2024, the Company incurred costs of $36,226, of which $20,430 of grant income was recognized as an offset to research and development expense and $15,796 was recognized as an offset to selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive loss. During the nine months ended September 30, 2023, the Company incurred costs of $250,713, of which $215,616 of grant income was recognized as an offset to research and development expense and $35,097 was recognized as an offset to selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive loss. As of September 30, 2024 and December 31, 2023, the grant receivable was $10,349 and $161,638, respectively, and is included in prepaid expenses and other current assets on the condensed consolidated balance sheets.

14. Income Taxes

For the interim periods, the Company estimates its annual effective income tax rate and applies the estimated rate to the year-to-date income or loss before taxes. The Company also computes the tax provision or benefit related to items reported separately and recognizes the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

The Company's effective tax rate is 0% for the three and nine months ended September 30, 2024 and 2023. The Company expects that its effective tax rate for the full year 2024 will be 0%.

15. Related Party Transactions

Convertible Notes Payable

In July 2020, the Company issued three convertible notes to three of its stockholders for advances up to $3,500,000 in principal (the "2020 Notes") and bearing annual interest of 5% on any amounts drawn. An additional note was issued in March 2022 as part of the 2020 Notes, but with an annual interest rate of 8%. All principal and interest payments are due on or before July 1, 2025. The 2020 Notes are convertible, at the holder's option, into shares of common stock of the Company at the lower of $14.59 per share or the offering price in a financing of at least $5,000,000 in equity from unaffiliated parties. As of September 30, 2024, an aggregate of 250,224 shares of common stock would be issued if the entire principal and interest under the 2020 Notes was converted. Management assessed whether the embedded features in the 2020 Notes should have been bifurcated from the debt host and concluded that none of the features were required to be accounted for separately from the debt instruments.

As of September 30, 2024 and December 31, 2023, the outstanding amount of the 2020 Notes was $3,143,725 and accrued interest of $507,029 and $377,772, respectively. Interest expense for the three months ended September 30, 2024 and 2023, was $43,400 and $45,921, respectively. Interest expense for the nine months ended September 30, 2024 and 2023, was $129,257 and $136,265, respectively.

Working Capital Loan and Extension Note

On May 3, 2023, the Company issued a promissory note (the "Working Capital Note") to a stockholder for a principal amount of $250,000. The Working Capital Note was subsequently amended and restated six times on June 12, 2023 to add an additional principal amount of $100,000, August 15, 2023 to add an additional principal amount of $75,000, August 29, 2023 to add an additional principal amount of $100,000, September 12, 2023 to add an additional principal amount of $75,000, September 15, 2023 to add an additional principal amount of $50,000, and October 26, 2023 to add an additional principal amount of $55,000, for an aggregate principal amount outstanding as of September 30, 2024 under the Working Capital Note of $705,000. The Working Capital Note was issued to provide the Company with additional working capital during the period prior to consummation of the Business Combination Agreement with GigCapital5. The Working Capital Note is interest-free and originally matured on the earlier of (i) the date on which the Company consummated the Business Combination with GigCapital5; (ii) the date the Company winds up; or (iii) December 31, 2023. The Working Capital Note may be prepaid without penalty. On March 4, 2024, the holder of the Working Capital Note agreed to extend and subordinate the promissory note pursuant to and in accordance with the terms of the Business Combination Agreement. Effective on the Closing of the Business Combination, the Working Capital Note cannot be repaid prior to the repayment or conversion of the Yorkville Note received from Yorkville (see Note 8).

On March 4, 2024, the Company assumed the $1,560,000 outstanding debt balance due to a related party (the "Extension Note") pursuant to the Business Combination Agreement. The Extension Note does not bear any interest and cannot be repaid prior to the repayment of the Yorkville Note received from Yorkville. See Note 16 regarding the surrender and cancellation of the Extension Note.

Management Services and Business Associate Agreement

In September 2020, QT Imaging entered into a Management Services Agreement (the "Agreement") and a Business Associate Agreement with John C. Klock, M.D., a California sole proprietorship operating as the QT Imaging Center (the "Practice"). John C. Klock, M.D. was the Chief Executive Officer of QT Imaging, serves on its Board of Directors, and was the largest single stockholder of QT Imaging. The Practice provided medical imaging to patients using the QT Breast Scanner. Under the terms of the Agreement, the Company agreed to provide business services to the Practice including use of the facility which formerly operated as the Marin Breast Health Trial Center, including furniture and medical equipment, as well as use of certain personnel. In exchange for those services, the Practice agreed to pay the Company a management fee. Fees paid to QT Imaging during the three months ended September 30, 2024 and 2023 were $0 and $12,000, respectively. Fees paid to QT Imaging during the nine months ended September 30, 2024 and 2023 were $12,000 and $36,000, respectively. These fees were recorded as a reduction to selling, general and administrative expenses on the condensed consolidated statements of operations and comprehensive loss. During the three and nine months ended September 30, 2024 and 2023, there were no significant purchases made by the Practice. As of September 30, 2024 and December 31, 2023, there were no significant amounts due from the Practice. This Agreement was terminated and replaced by the Space and Equipment Sublease Agreement on April 17, 2024 and Services Agreement on April 5, 2024.

Services Agreement

On April 5, 2024, the Company entered into that certain Services Agreement (the "Services Agreement") with the Practice dated as of April 1, 2024 pursuant to which the Practice agreed to provide its services to the Company, including but not limited to providing healthcare services to patients, assisting with clinical trials and studies and assisting with drafting of institutional review board approved clinical protocols, assisting with the performance of research and development activities on behalf of the Company, providing comprehensive multi-day training on the operation of breast imaging technology for radiologist customers and other customer staff such as technicians, performing clinical validation of imaging software changes which may include recruiting patients, training personnel on the operation of the Company's imaging technology, as well as other services as specified in the Services

Agreement. The term of the Services Agreement is one year unless earlier terminated and shall auto-renew for successive one-year periods, unless otherwise terminated. During the three and nine months ended September 30, 2024, the Company incurred $19,350 and $29,871 in accordance with the Services Agreement with a related party, respectively.

Space and Equipment Sublease Agreement

On April 17, 2024, the Company entered into a Space and Equipment Sublease Agreement (the “Space and Equipment Sublease”) with the Practice, pursuant to which the Practice will sublease certain medical equipment and space, currently leased from Hamilton Landing Novato LLC by the Company, to the Practice for use in its operations, on a full-time and exclusive basis. The Practice shall pay to the Company a $5,666 rental fee (the “Rent”) for the Subleased Space (as defined in the Space and Equipment Sublease) on a monthly basis, payable on the first day of each month and no later than ten days thereafter, with the Rent to be pro-rated for any partial month. The parties have determined that the Rent equals the fair market value of the Subleased Space and Subleased Equipment (as defined in the Space and Equipment Sublease), without taking into account the proximity of the parties or the space to any source, volume or value of referrals between the parties or any patient thereof. Further, the Practice shall pay when due all sales, use, personal property, leasing, excise or other fees, taxes, charges or withholdings of any kind imposed against the Company, the Practice or the Subleased Equipment with respect to the Space and Equipment Sublease, the Subleased Equipment, or any related fees, receipts or earnings, including local taxes and personal property taxes. The term of the Space and Equipment Sublease is one year unless terminated and shall auto-renew for successive one-year periods, unless otherwise terminated. During the three and nine months ended September 30, 2024, the Company recorded $16,998 and $33,996 of sublease income in other income (expense), net within the condensed consolidated statements of operations and comprehensive loss, respectively.

Deferred Revenue

In July 2023, an order was placed and a downpayment of $200,000 was made for a breast imaging system by 303 Development Corporation (the “Foundation”). The executive director of the Foundation is a current investor and a was a previous board member of the Company. In September 2023, an additional $100,000 was paid towards the purchase. In June 2024, the Company cancelled this order and refunded the full deposit of $300,000 to the related party. As of September 30, 2024 and December 31, 2023, the Company had a deferred revenue balance of zero and $300,000, respectively, related to this order.

16. Subsequent Events

On October 31, 2024, the Company and Yorkville executed the Second Omnibus Amendment (the “Second Amendment”), pursuant to which the maturity date of the Yorkville Note was extended from December 15, 2025 to March 31, 2026. Further, the Second Amendment acknowledges the Company’s obligation to make monthly payments to Yorkville in the amount of the Trigger Principal Amount due to the occurrence of the Trigger Event and no further monthly payments will be owed during the period beginning on the date of the Second Amendment and ending on February 15, 2025. In exchange for this relief, beginning on February 15, 2025, and continuing on the same day of each successive calendar month until and including February 15, 2026, whether or not a Trigger Event has occurred and is continuing as of such dates, the Company will make monthly payments in an amount equal to $500,000 plus the Payment Premium plus accrued and unpaid interest as of each such payment date. Such monthly payments will not be reduced or offset by any amount, including, but not limited to, any net sales proceeds of the Company Shares or any value of the Company Shares based on the VWAP as quoted by Bloomberg, LP. Further, pursuant to the terms of the Second Amendment, the Company has elected to reduce the Floor Price to $0.50 per share, effective as of the date of the Second Amendment. The Second Amendment also provides that in the event that the Company’s common stock is delisted from trading on the Nasdaq Stock Market, Yorkville consents to the occurrence of such delisting from the Nasdaq Stock Market, if it is to happen, and that it will not constitute an Event of Default as defined per the Omnibus Amendment, provided that (i) the Company uses its best efforts to have its common stock relisted on the Nasdaq Stock Market as soon as possible and (ii) the Company’s common stock is listed on the OTC Markets’ OTCQX or OTCQB market tiers within 30 days in the event that a delisting from the Nasdaq Stock Market occurs.

On November 4, 2024, Yorkville converted $254,593 of outstanding principal into 384,059 shares of common stock with an applicable conversion price of $0.6629 per share. The principal balance of the Yorkville Note was $8,600,000 following the conversion notice received from Yorkville.

On November 12, 2024, the Company and certain related parties entered into a securities purchase agreement as a PIPE for the issuance of shares of common stock plus warrants for the purchase of common stock with an aggregate purchase price of $2,560,000 in exchange for 4,383,558 shares of common stock at an issuance price of $0.584 per share and 4,383,558 warrants with an exercise price of $0.672 per share, the closing of which sale will occur by November 29, 2024. The holder of the Extension Note is one of the purchasers under the securities purchase agreement and will be surrendering the Extension Note for cancellation in its entirety in exchange for the purchase of shares of common stock and warrants for the purchase of common stock with a purchase price of $1,560,000.

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

Unless otherwise indicated or the context otherwise requires, references in this report (this "Quarterly Report") to "we," "our," "us," "QT Imaging", "QT Imaging Holdings" or the "Company" and other similar terms refer to QT Imaging Holdings, Inc. and its consolidated subsidiaries. The following discussion and analysis provides information which QT Imaging Holding's management believes is relevant to an assessment and understanding of consolidated results of operations and financial condition. You should read the following discussion and analysis of QT Imaging Holdings' financial condition and results of operations in conjunction with the unaudited condensed consolidated financial statements and notes thereto contained in this Quarterly Report.

Special Note Regarding Forward-Looking Statements

This Quarterly Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act of 1934, as amended (the "Exchange Act"), that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. All statements, other than statements of historical fact included in this Quarterly Report including, without limitation, statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's financial position, business strategy and the plans and objectives of management for future operations, and statements in "Unregistered Sales of Equity Securities and Use of Proceeds" regarding the intended use of proceeds from the Private Placement (as such term is defined below), are forward-looking statements and the expected date of closing of the Private Placement. Words such as "expect," "believe," "anticipate," "intend," "estimate," "seek," "may," "might," "plan," "possible," "potential," "should, "would" and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect management's current beliefs, based on information currently available. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to the "Risk Factors" section in Part II, Item 1A. of this Quarterly Report, the "Risk Factors" section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on March 25, 2024 (our "Annual Report") and in any more recent filings with the SEC. The Company's securities filings can be accessed on the EDGAR section of the SEC's website at www.sec.gov. Except as expressly required by applicable securities law, the Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Overview

We are a medical device company founded in 2012 and engaged in the research, development, and commercialization of innovative body imaging systems using low energy sound. We believe that medical imaging is critical to the detection, diagnosis, and treatment of disease and that it should be safe, affordable, and accessible. Our goal is to improve global health outcomes through the development and commercialization of imaging devices that address critical healthcare challenges with accuracy and precision.

With the support of nearly $18 million in financial support from the U.S. National Institutes of Health, we developed a novel, comprehensive body imaging technology that has high resolution, high sensitivity, high specificity, high positive and negative predictive values, and is safe and inexpensive. The technology is based on ultra-low frequency transmitted sound and uses a one-of-a-kind novel sound back-scatter design and inverse-scattering reconstruction to create its images.

Our current QT Breast Scanner is a Class II device subject to premarket notification and clearance under Section 510(k) of the Federal Food, Drug, and Cosmetic Act ("FDCA"). On August 23, 2016, we (formerly, QT Ultrasound LLC) submitted a Section 510(K) Summary of Safety and Effectiveness application for the QT Breast Scanner in accordance with 21 CFR 807.92 under 510(K) Number K162372. As part of meeting the general requirements for basic safety and essential performance of the QT Breast Scanner (formerly, QT Ultrasound Breast Scanner) pursuant to AAMI ES60601-1:2005/(R)2012 and A1:2012 Medical electrical equipment, testing was conducted by Intertek, an independent testing laboratory, located in Menlo Park, CA. Intertek also conducted applicable testing pursuant to IEC 60601-1-6 Edition 3.1 2013-10-Medical electrical equipment Part 1-6 General requirements for safety - Collateral Standard: Usability.

In addition, we conducted, and Intertek witnessed, all applicable testing pertaining to the requirements for the safety of ultrasonic medical diagnostic and monitoring equipment and to demonstrate compliance with the “Acoustic Output Measurement Standard for Diagnostic Ultrasound Equipment”. This test on acoustic output was pursuant to IEC 60601-2-37 Edition 2.0.2007 Medical electrical equipment - Part 2-37: Particular requirements for the basic safety and essential performance of ultrasonic medical diagnostic and monitoring equipment. Finally, system verification testing was conducted to ensure that the QT Breast Scanner met all design and other requirements including but not limited to that no new issues of safety or effectiveness compared to the predicate device, SoftVue System manufactured by Delphinus Medical Technologies, were raised.

Since our inception, we have devoted substantially all our financial resources to acquiring and developing the base technology for our body imaging systems, conducting research and development activities, securing related intellectual property rights, and for general corporate operations and growth. On June 6, 2017, the Food and Drug Administration (“FDA”), in response to QT’s Section 510(K) Summary of Safety and Effectiveness premarket notification, determined that the QT Breast Scanner is substantially equivalent to the predicate device. Our use of the words “safe”, “safety”, “effectiveness”, and “efficacy” in relation to the QT Breast Scanner in this Management's Discussion and Analysis and all other documents related to us is limited to the context of the Section 510(K) Summary of Safety and Effectiveness that was reviewed and responded to by the FDA.

Our strategies to commercializing the QT Breast Scanner include the following:

- Create disruptive innovation using technology (software, artificial intelligence, and smart physics) to improve medical imaging and thus health care quality and access.
- Continue to improve our high quality, high resolution, native 3D, reproducible image quality regardless of operator or breast size/tissue type breast imaging technology, as well as the techniques for quantifiable analysis, comparison, and training.
- Partner with strategic business and distribution channels to address US market for breast imaging immediately and, other regions in the future, to place the QT Breast Scanner in hospitals, radiology centers, etc. and generate awareness of the benefits of QT Imaging technology.
- Perform small scale manufacturing internally to the Company and partner strategically for large scale manufacturing.
- Introduce the first comprehensive body-safe imaging technology into the marketplace, enabling for the first-time well-person body imaging health screening, and the first health screening medical imaging for infants.
- Expand the market by supporting additional Direct-to-Customer and Direct-to-Patient approaches to enable the ability to lower health care costs and increase access via personal medical imaging.
- Provide a new social and economic opportunity for consumers to take control of some aspects of their own health care—such as imaging for minor injuries or medical conditions without needing a healthcare “gate-keeper.”
- Focus our intellectual capabilities and ethical framework to become unified in our mission to improve the quality and lower the cost of health care world-wide . . . “It’s about time.”

Consistent with our strategy, on May 31, 2023, we entered into a confidential Sales Agent Agreement (the “NXC Agreement”) with NXC Imaging, Inc. (“NXC”), a wholly owned subsidiary of Canon Medical Systems USA, Inc. (“CMSU”), pursuant to which we appointed NXC as the non-exclusive agent for the sale of QT Imaging products and services in non-exclusive territories: the U.S., U.S. territories, and U.S. Department of Defense installations. Additionally, NXC was appointed as the exclusive servicer of QT Imaging products sold by NXC under the terms of the NXC Agreement. Effective June 10, 2024, the NXC Agreement was superseded by the Distribution Agreement that was entered into with NXC on June 18, 2024 (the “Distribution Agreement”). Under the Distribution Agreement, NXC is appointed as the exclusive reseller to market, advertise, and resell QT Breast Scanners in the U.S. and U.S. territories. NXC will purchase for the purpose of reselling, leasing or renting QT Breast Scanners directly to its customers, but is not obligated to purchase any particular quantity of QT Breast Scanners from us. We have reserved the right to sell directly to customers as an exception. Furthermore, we may, in our sole discretion, sell the QT Breast Sacnners to any other person or entity anywhere in the world without notice to NXC or NXC’s prior consent. NXC is also allowed to assign sales agents for the purpose of QT Breast Scanner sales. NXC’s purchases will be in accordance with an agreed upon product pricing schedule (subject to change upon 60 days’ prior written notice by us), provided that neither NXC nor its assigned sales agents may mark-up the cost of the QT Breast Scanners more than twenty percent (20%) unless otherwise mutually agreed to between NXC and us. Each order will include information reasonably requested by us and is subject to our acceptance, after which it becomes an approved order. Any such approved orders are non-cancellable and not subject to rescheduling after acceptance by us. Any orders not accepted by us in writing are deemed rejected. As of September 30, 2024, we have delivered six QT Breast Scanners to NXC’s customers pursuant to NXC Agreement and Distribution Agreement.

We have also entered into a non-binding letter of intent (the "Canon Letter of Intent"), with CMSU and Canon Medical Systems, Inc. ("CMSC") pursuant to which four binding purchase orders delivered in January 2024 to QT Imaging for the acquisition by CMSC of two QT Breast Scanners, with 50% of the payment for the QT Breast Scanners having taken place on January 31, 2024 and the remaining payment and the shipment of the two QT Breast Scanners occurred by April 15, 2024, which were delivered to CMSU in March 2024. CMSC will also use QT Breast scanners that it is acquiring to perform clinical trials towards the possibility of it pursuing the regulatory approval process in Japan.

On March 28, 2024, we entered into a Feasibility Study Agreement (the "Feasibility Study Agreement") with CMSC, a company organized and existing under the laws of Japan ("Canon"). The term of the Feasibility Study Agreement commenced on March 28, 2024 and shall remain in force until the end of December 2024 or until the execution of a definitive agreement that clearly supersedes the Feasibility Study Agreement, whichever comes earlier. In connection with the Feasibility Study Agreement, CMSC will initiate studies to evaluate the business, technical, and clinical values of our ultrasound QT Breast Scanner including product quality validation, development and manufacturing studies, clinical evaluation, regulatory investigation, and market validation. CMSC has no right to reverse engineer the QT Breast Scanner and may only modify and disassemble the QT Breast Scanner as necessary to conduct the feasibility study.

Upon successful conclusion of the feasibility study, we and CMSC intend to engage in a good faith discussion to develop a binding Original Equipment Manufacturer ("OEM") agreement with CMSC, with such agreement targeted for execution in the fourth quarter of 2024. Under the contemplated OEM agreement, CMSC will commercialize and service the QT Breast Scanner worldwide, with Canon-branded systems to be sold exclusively through Canon global channels, including by NXC as provided for in the NXC Agreement, and a license fee to be mutually agreed upon to be paid to us for each system sold by Canon or its partners. The parties also intend that CMSU will leverage the contemplated OEM agreement to source QT Breast Scanners for sale in the U.S. on terms to be mutually agreed upon.

We have incurred net operating losses and negative cash flows from operations since our inception and had an accumulated deficit of $32,122,605 as of September 30, 2024. During the nine months ended September 30, 2024, we incurred a net loss of $9,166,958 and used $8,806,402 of cash in operating activities, which includes the repayment of net liabilities assumed from the business combination. We continue to incur losses, and our ability to achieve and sustain profitability will depend on the achievement of sufficient revenues to support our cost structure. We may never achieve profitability and, unless and until we do, we will need to continue to raise additional capital.

We expect to incur additional recurring administrative expenses associated as a publicly traded company, including costs associated with compliance under the Exchange Act, annual and quarterly reports to stockholders, transfer agent fees, audit fees, incremental director and officer liability insurance costs, Sarbanes-Oxley Act compliance readiness, and director and officer compensation.

Recent Developments

On November 15, 2023, we entered into the SEPA with GigCapital5 and Yorkville, pursuant to which, upon the closing of the Business Combination, QTI Holdings can sell to Yorkville up to $50.0 million of QTI Holdings common stock at QTI Holdings' request any time during the 36 months following the closing of the Business Combination. In addition, pursuant to the SEPA, we were entitled to and did request the Pre-Paid Advance from Yorkville and issued Yorkville the Yorkville Note in the amount of $10.0 million at the closing of the Business Combination for such Pre-Paid Advance. As consideration for the Pre-Paid Advance, immediately prior to, and substantially concurrently with, the Closing of the Business Combination, we issued to Yorkville the Company Shares which were that number of QT Imaging shares which converted in the aggregate into 1,000,000 shares of our common stock upon the completion of the Business Combination. On March 4, 2024, we received the Pre-Paid Advance of $9,025,000 from Yorkville and issued Yorkville the Yorkville Note that was originally due 15 months from the date of issuance, and accrues interest on the outstanding balance of the Yorkville Note at an annual rate equal to 6%, subject to an increase to 18% upon an event of default as described in the Yorkville Note. The Yorkville Note is convertible by Yorkville into shares of our common stock.

On September 13, 2024, a Trigger Event occurred under the terms of the Yorkville Note that resulted in the Company making a payment of $1,521,581 to Yorkville, which comprised of $1,145,407 of principal, $318,904 of accrued interest, and $57,170 of 5% early payment premium. On September 26, 2024, the Company and Yorkville entered into the Omnibus Amendment, pursuant to which the Company and Yorkville agreed to amend certain terms of the Yorkville Note to reduce the Company's obligations resulting from the occurrence of the Trigger Event. Pursuant to the Omnibus Amendment, the maturity date of the Yorkville Note was extended approximately six months from June 4, 2025 to December 15, 2025. Further, the Omnibus Amendment acknowledges the Company's obligation to make monthly payments to Yorkville d in the amount of the Trigger Principal Amount due to the occurrence of the Trigger Event and revised the Yorkville Note to provide that no further monthly payments will be owed during the period beginning on the date of the Omnibus Amendment and ending on January 15, 2025. In exchange for this relief, beginning on January 15, 2025, and continuing on the same day of each successive calendar month until and including November 15, 2025, whether or not a Trigger Event has occurred and is continuing as of such dates, the Company will make monthly payments in an amount equal to $500,000 of principal plus the payment premium of 5% and accrued and unpaid interest under the Yorkville Note as of each payment date. Such monthly payments will not be reduced or offset by any amount, including, but not limited to, any net sales proceeds of the Company Shares or any value of the Company Shares based on the volume-weighted average price as quoted by Bloomberg, LP. The Omnibus Amendment also provided that 100% of the proceeds of the sale of the remaining 400,000 Company Shares held at the time of entry into the Omnibus Amendment by Yorkville shall be retained by Yorkville and shall not be used to offset or reduce any amounts owed under the Yorkville Note, as amended by the Omnibus Amendment, or to otherwise benefit the Company in any way. The Omnibus Amendment also provides that in the event that the Company's common stock is delisted from trading on the Nasdaq Stock Market, Yorkville consents to the occurrence of such delisting from the Nasdaq Stock Market, if it is to happen, and that it will not constitute an Event of Default as per the Omnibus Amendment, provided that (i) the Company uses its best efforts to have its common stock relisted on The Nasdaq Capital Market as soon as possible and (ii) the Company's common stock is listed on the OTC Markets' OTCQX market tier within 30 days in the event that a delisting from the Nasdaq Stock Market occurs.

On October 31, 2024, the Company and Yorkville executed the Second Amendment, pursuant to which the maturity date of the Yorkville Note was extended from December 15, 2025 to March 31, 2026. Further, the Second Amendment acknowledges the Company's obligation to make monthly payments to Yorkville in the amount of the Trigger Principal Amount due to the occurrence of the Trigger Event and no further monthly payments will be owed during the period beginning on the date of the Second Amendment and ending on February 15, 2025. In exchange for this relief, beginning on February 15, 2025, and continuing on the same day of each successive calendar month until and including February 15, 2026, whether or not a Trigger Event has occurred and is continuing as of such dates, the Company will make monthly payments in an amount equal to $500,000 plus the Payment Premium plus accrued and unpaid interest as of each such payment date. Such monthly payments will not be reduced or offset by any amount, including, but not limited to, any net sales proceeds of the Company Shares or any value of the Company Shares based on the VWAP as quoted by Bloomberg, LP. Further, pursuant to the terms of the Second Amendment, the Company has elected to reduce the Floor Price to $0.50 per share, effective as of the date of the Second Amendment. The Second Amendment also provides that in the event that the Company's common stock is delisted from trading on the Nasdaq Stock Market, Yorkville consents to the occurrence of such delisting from the Nasdaq Stock Market, if it is to happen, and that it will not constitute an Event of Default as defined per the Omnibus Amendment, provided that (i) the Company uses its best efforts to have its common stock relisted on the Nasdaq Stock Market as soon as possible and (ii) the Company's common stock is listed on the OTC Markets' OTCQX or OTCQB market tiers within 30 days in the event that a delisting from the Nasdaq Stock Market occurs.

On November 4, 2024, Yorkville converted $254,593 of outstanding principal into 384,059 shares of common stock with an applicable conversion price of $0.6629 per share. The principal balance of the Yorkville Note was $8,600,000 following the conversion notice received from Yorkville.

On November 12, 2024, the Company and certain related parties entered into a securities purchase agreement as a PIPE for the issuance of shares of common stock plus warrants for the purchase of common stock with an aggregate purchase price of $2,560,000 in exchange for 4,383,558 shares of common stock at an issuance price of $0.584 per share and 4,383,558 warrants with an exercise price of $0.672 per share.

Components of Our Results of Operations

Revenue

Revenue consists of revenue from the sale of our products including the QT Breast Scanner, accessories, and related services, which are primarily training and maintenance. For sales of products (which include the QT Breast Scanner and any accessories), revenue is recognized when a customer obtains control of the promised goods. The amount of revenue recognized reflects the consideration we expect to be entitled to receive in exchange for these goods. Service revenue is generally related to maintenance and training the customer. Service revenue is recognized at the time the related performance obligation is satisfied, in an amount that reflects the consideration that we expect to receive in exchange for those services.

Cost of Revenue

Cost of revenue consists of our product costs, including manufacturing costs, personnel costs and benefits, duties and other applicable importing costs, shipping and handling costs, packaging, warranty replacement costs, fulfillment costs and inventory obsolescence and write-offs. We expect our cost of revenue to increase in absolute dollars and decrease as a percentage of revenues over time as we shift to new manufacturing processes and vendors that we anticipate will result in greater efficiency and lower per unit costs.

We expect we will continue to invest additional resources into our products to expand and further develop our offerings. The level and timing of investment in these areas could affect our cost of revenue in the future.

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of costs incurred in connection with the research and development of our products, which include payroll and payroll related expenses, facilities costs, depreciation expense, materials and supplies, and consultant costs.

We expense all research and development costs in the periods in which such costs are incurred. Research and development activities are central to our business. We expect that our research and development expenses will increase substantially for the foreseeable future as we continue to invest in the development of the QT Breast Scanner and devote significant resources to the research and development of the full-body scanner product candidate intended for orthopedic and pediatric use.

As of the date of this Form 10-Q, we cannot reasonably determine the nature, timing and costs of the efforts that will be necessary to complete the enhancements of the QT Breast Scanner, or estimate the nature, timing and costs that will be necessary to complete the development of, and obtain regulatory approval for, the full-body scanner product candidate. The process of conducting the necessary research and development to obtain regulatory approval of a product candidate is costly and time-consuming, and the successful development of our product candidates is highly uncertain. Our research and development expenses may vary significantly based on factors such as, without limitation:

- The timing and progress of development activities;
- Our ability to maintain our current research and development programs and to establish new ones;
- The receipt of regulatory approvals from applicable regulatory authorities without the need for independent clinical trials or validation;
- Duration of subject participation in any trials and follow-ups;
- The countries and jurisdictions in which the trials are conducted;
- Length of time required to enroll eligible subjects and initiate trials;
- Per trial subject costs;
- Number of trials required for regulatory approval;
- The timing, receipt, and terms of any marketing approvals from applicable regulatory authorities;
- The success of our distribution arrangements, and our ability to establish new licensing or collaboration arrangements;
- Establishing contract manufacturing partnerships or making arrangements with third-party manufacturers;
- The hiring and retention of research and development personnel;
- Obtaining, maintaining, defending, and enforcing intellectual property rights; and
- The phases of development of our product candidates.

Any changes in the outcome of any of these variables with respect to the development of our products or product candidates could significantly change the costs and timing associated with the development of these products and product candidates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of personnel costs, costs related to maintenance and filings of intellectual property, and other expenses for outside professional services, including legal, consulting, investor relations, audit and accounting services. Our personnel costs consist of salaries, benefits and stock-based compensation expenses. Selling, general and administrative expenses include facilities, depreciation and other expenses, which include direct or allocated expenses for rent and maintenance of facilities and insurance. Selling, general and administrative expenses also include consulting expenses and costs for conferences, meetings, and other events.

We anticipate that our selling, general and administrative expenses will increase to support our expanding headcount and operations, increased costs of operating as a public company, the development of a commercial infrastructure to support commercialization of our products and product candidates, increased support for existing and new distribution partner relationships, and the use of outside service providers such as insurers, consultants, lawyers, and accountants. We also expect selling expenses to increase in the near term as we promote our brand through marketing and advertising initiatives, expand market presence and hire additional personnel to drive penetration and generate leads.

Results of Operations

Comparison of the three months ended September 30, 2024 and 2023

	For Three Months Ended September 30,		Change	
	2024	2023	$	%
Revenue	$ 955,970	$ 24,657	$ 931,313	N.M.
Cost of revenue	350,667	23,799	326,868	N.M.
Gross profit (loss)	605,303	858	604,445	N.M.
Operating expenses:				
Research and development	925,214	311,829	613,385	197 %
Selling, general and administrative	2,007,277	932,124	1,075,153	115 %
Total operating expenses	2,932,491	1,243,953	1,688,538	136 %
Loss from operations	(2,327,188)	(1,243,095)	(1,084,093)	(87)%
Other income (expense), net	16,995	—	16,995	100 %
Change in fair value of warrant liability	8,805	—	8,805	100 %
Change in fair value of derivative liability	87,200	—	87,200	100 %
Change in fair value of earnout liability	50,000	—	50,000	100 %
Interest expense, net	(1,455,306)	(132,844)	(1,322,462)	(995)%
Net loss and comprehensive loss	$ (3,619,494)	$ (1,375,939)	$ (2,243,555)	(163)%

N.M. - Not meaningful

Revenue

Revenue increased by $931,313 to $955,970 for the three months ended September 30, 2024 from $24,657 for the three months ended September 30, 2023. The increase in revenue was primarily attributable to the sale of two QT Breast Scanners in the third quarter of 2024 as compared with no scanners sold in the third quarter of 2023 due to the timing of sales orders received, availability of scanners that were earmarked and ready for sale to customers, and the result of our ongoing commercialization effort in 2024.

Cost of Revenue

Cost of revenue increased by $326,868 to $350,667 for the three months ended September 30, 2024 from $23,799 for the three months ended September 30, 2023. The increase in cost of revenue was primarily attributable to the sale of two QT Breast Scanners in the third quarter of 2024 as compared with no scanners sold in the third quarter of 2023.

Operating Expenses

Research and Development Expenses

Research and development expenses increased by $613,385 to $925,214 for the three months ended September 30, 2024 from $311,829 for the three months ended September 30, 2023. The increase in research and development expenses was primarily attributable to an increase in employee compensation costs of $380,731 and professional and outside services costs of $153,529 and a decrease in grant income from the National Institute of Health of $137,827, which was partially offset by a decrease in depreciation and amortization expense of $97,717.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $1,075,153 to $2,007,277 for the three months ended September 30, 2024 from $932,124 for the three months ended September 30, 2023. This change was primarily attributable to an increase in employee compensation costs of $688,243, insurance costs of $231,277, and information technology cost of $101,381.

Other income (expense), net

Other income (expense), net increased by $16,995 during the three months ended September 30, 2024. There were no other income (expense) during the three months ended September 30, 2023. This increase was primarily due to the sublease of our equipment and office with a related party and effective date of April 1, 2024.

Change in fair value of warrant liability

Change in fair value of warrant liability was $8,805 during the three months ended September 30, 2024. The change in fair value of warrants relates to the liability classified private placement warrants and working capital note warrants and reflects the decrease of the publicly traded price per warrant during the three months ended September 30, 2024.

Change in fair value of derivative liability

Change in the fair value of derivative liability was $87,200 during the three months ended September 30, 2024. The change in fair value of derivatives was primarily driven by the decline in the value of our common stock during the three months ended September 30, 2024.

Change in fair value of earnout liability

Change in the fair value of earnout liability was $50,000 during the three months ended September 30, 2024. The earnout liability relates to the contingent consideration for the Merger Earnout Consideration Shares pursuant to the Business Combination Agreement dated December 8, 2022, as amended in September of 2023. We did not have an earnout liability during the three months ended September 30, 2023.

Interest expense, net

Interest expense, net increased by $1,322,462 to $1,455,306 for the three months ended September 30, 2024 from $132,844 for the three months ended September 30, 2023. This change is primarily driven by an increase in the amortization of debt discount of $1,203,363 for the Pre-Paid Advance and the Cable Car Promissory Note and interest expense of $149,676 for the Pre-Paid Advance.

Comparison of the nine months ended September 30, 2024 and 2023

	Nine Months Ended September 30,		Change	
	2024	2023	$	%
Revenue	$ 4,032,168	$ 35,404	$ 3,996,764	N.M.
Cost of revenue	1,792,234	73,497	1,718,737	N.M.
Gross profit (loss)	2,239,934	(38,093)	2,278,027	N.M.
Operating expenses:				
Research and development	2,492,842	1,083,373	1,409,469	130 %
Selling, general and administrative	9,873,029	3,072,720	6,800,309	221 %
Total operating expenses	12,365,871	4,156,093	8,209,778	198 %
Loss from operations	(10,125,937)	(4,194,186)	(5,931,751)	(141)%
Other income (expense), net	(191,330)	—	(191,330)	(100)%
Change in fair value of warrant liability	199,624	—	199,624	100 %
Change in fair value of derivative liability	4,800,000	—	4,800,000	100 %
Change in fair value of earnout liability	(700,000)	—	(700,000)	(100)%
Interest expense, net	(3,149,315)	(394,714)	(2,754,601)	N.M.
Net loss and comprehensive loss	$ (9,166,958)	$ (4,588,900)	$ (4,578,058)	(100)%

N.M. - Not meaningful

Revenue

Revenue increased by $3,996,764 to $4,032,168 for the nine months ended September 30, 2024 from $35,404 for the nine months ended September 30, 2023. The increase in revenue was primarily attributable to the sale of nine QT Breast Scanners in the first nine months of 2024 as compared with no scanners sold in the first nine months of 2023 due to the timing of sales orders received, availability of scanners that were earmarked and ready for sale to customers, and the result of our ongoing commercialization effort in 2024.

Cost of Revenue

Cost of revenue increased by $1,718,737 to $1,792,234 for the nine months ended September 30, 2024 from $73,497 for the nine months ended September 30, 2023. The increase in cost of revenue was primarily attributable to the sale of nine QT Breast Scanners in the first nine months of 2024 as compared with no scanners sold in the first nine months of 2023, which was partially offset by inventory write-offs in the first nine months of 2023.

Operating Expenses

Research and Development Expenses

Research and development expenses increased by $1,409,469 to $2,492,842 for the nine months ended September 30, 2024 from $1,083,373 for the nine months ended September 30, 2023. The increase in research and development expenses was primarily attributable to an increase in employee compensation costs of $822,538 and professional and outside services costs of $427,494, and decrease in grant income from the National Institute of Health of $207,603.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $6,800,309 to $9,873,029 for the nine months ended September 30, 2024 from $3,072,720 for the nine months ended September 30, 2023. This change was primarily attributable to increases in non-recurring transaction expenses of $3,944,924 related to the business combination, professional and outside services costs of $363,432, non-recurring recruiting and employee conversion costs of $143,000, employee compensation costs of $1,314,537, insurance costs of $545,530, information technology costs of $200,769, and travel costs of $94,123.

Other income (expense), net

Other income (expense), net increased by $191,330 during the nine months ended September 30, 2024. There were no other income (expense) during the nine months ended September 30, 2023. This increase was primarily due to a modification expense of $200,513 related to the decrease in exercise price of our private placement warrants and working capital note warrants.

Change in fair value of warrant liability

Change in fair value of warrant liability was $199,624 during the nine months ended September 30, 2024. The change in fair value of warrants relates to the liability classified private placement warrants and working capital note warrants and reflects the decrease of the publicly traded price per warrant during the nine months ended September 30, 2023.

Change in fair value of derivative liability

Change in the fair value of derivative liability was $4,800,000 during the nine months ended September 30, 2024. The change in fair value of derivatives was primarily driven by the decline in the value of our common stock during the nine months ended September 30, 2023.

Change in fair value of earnout liability

Change in the fair value of earnout liability was $700,000 during the nine months ended September 30, 2024. The earnout liability relates to the contingent consideration for the Merger Earnout Consideration Shares pursuant to the Business Combination Agreement dated December 8, 2022, as amended in September of 2023. We did not have an earnout liability during the nine months ended September 30, 2023.

Interest expense, net

Interest expense, net increased by $2,754,601 to $3,149,315 for the nine months ended September 30, 2024 from $394,714 for the nine months ended September 30, 2023. This change is primarily driven by an increase in the amortization of debt discount of $2,404,031 for the Bridge Loans, the Pre-Paid Advance, the Cable Car Promissory Note and the Extension Note, an increase in interest expense of $343,648 for the Pre-Paid Advance, and an increase in interest of $160,000 paid in cash related to the Bridge Loans, partially offset by decrease in interest expense of $66,442 related to the US Capital Note.

Liquidity and Capital Resources

Sources of Liquidity

Liquidity describes our ability to meet financial obligations which arise during the normal course of business. To date, we have financed our operations primarily through the sale of equity securities, issuances of convertible notes and other debt, and grants from the U.S. government. We expect to derive future liquidity primarily through our revenues with customers and sale of equity securities. Our current liquidity position consists of cash on hand and certificates of deposit.

Since our inception, we have incurred significant operating losses and negative cash flows. As of September 30, 2024 and December 31, 2023, we had an accumulated deficit of $32,122,605 and $17,770,145, respectively. As of September 30, 2024 and December 31, 2023, we had cash and restricted cash and cash equivalents of $1,564,169 and $184,686, respectively. Our primary uses of cash are for general working capital requirements, and capital expenditures. Cash flows from operations have been historically negative as we invested in product development, clinical trials, and manufacturing. We expect to be cash flow negative for the foreseeable future, although we may have quarterly results where cash flows from operations are positive.

In connection with the Business Combination, we entered into various agreements to obtain financing through the issuance of debt and through stock subscription agreements. In March of 2024, we received the Pre-Paid Advance net of issuance costs of $9,025,000 from Yorkville pursuant to the SEPA and issued Yorkville the Yorkville Note in the amount of $10.0 million for such Pre-Paid Advance, $500,000 of cash proceeds from an investor related to a stock subscription agreement, and $1,500,000 in cash proceeds through a note payable from Cable Car. The SEPA provides us with access to an additional $40 million of potential capital through the issuance of common stock to Yorkville. During the time we have a balance under the Yorkville Note, advances can be received under the SEPA with written consent of Yorkville or upon a trigger event, which following the effectiveness of the Registration Statement on Form S-1 that we filed to register the shares to be issued pursuant to the SEPA occurs when the daily volume-weighted average price is less than the Floor Price (as such term is defined in the Yorkville Note) for five consecutive trading days, which prior to October 31, 2024, was $0.8768 per share. As previously disclosed in a Current Report on Form 8-K with the SEC on September 13, 2024, a trigger event occurred on September 11, 2024, following which on September 13, 2024, the Company made a payment to Yorkville on the Yorkville Note of $1,521,581 which included $1,145,407 as repayment of principal. See Yorkville Pre-Paid Advance below for a further discussion of the effect of this trigger event and an amendment to the documents pertaining to the Yorkville Note. On November 12, 2024 the Company executed a securities purchase agreement with related parties for the purchase of common stock as a PIPE with an aggregate purchase price of $2.56 million PIPE, which includes surrender and cancellation of the $1,560,000 outstanding balance of the Extension Note from a related party (see Related Party Working Capital Loan and Extension Note below). The closing of the PIPE will occur by November 29, 2024. We believe that the additional cash received from PIPE and the financing arrangement under the SEPA and the Yorkville Note will be sufficient to fund our current operating plan for at least the next 12 months.

Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, and the timing and cost to introduce new and enhanced products. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. Any additional debt financing obtained by us in the future could also involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Additionally, if we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of the Company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Paycheck Protection Program Loan

On February 24, 2021 and May 5, 2020, we received PPP Loans from US Bank to fund payroll, rent and utilities through the Paycheck Protection Program. We received partial forgiveness on the PPP Loans during fiscal year 2021. The remaining balances on the PPP Loans are being repaid on a monthly basis, with interest of 1% per annum and the final payment due in February 2026.

As of September 30, 2024, the total principal outstanding under the PPP Loans was $128,699, of which $105,733 was current and $22,966 was noncurrent. As of December 31, 2023, the total principal outstanding under the PPP Loans was $226,348, of which $130,366 was current and $95,982 was noncurrent.

Convertible Notes Payable

In June 2021, we entered into a convertible promissory note agreement (the “Note”) with USCG for advances of up to $10,000,000. We could have made advances on the Note up to six months after the inception of the Note unless extensions for advances were mutually agreed between both parties. The Note bore interest at 12% per annum on any amounts drawn with a maturity date of July 6, 2024. The Note was collateralized by all our assets and was guaranteed by QT Labs. The terms of the Note include non-financial covenants and, as of March 4, 2024 when the Note converted, we were in compliance with those covenants. Through December 31, 2023, we issued warrants in connection with the note to purchase a total of 5,091 shares of common stock which 3,540 shares are exercisable at a price of $12.40 per share and 1,551 shares are exercisable at a price of $11.67 per share. On March 4, 2024, these warrants were terminated in accordance with the Business Combination Agreement.

The Note was convertible, at our option, before the Note matured upon the closing of a single transaction or a series of transactions with a minimum of $15,000,000 of cash proceeds raised in the aggregate. If elected, the conversion price is 90% of the price per share in the qualified financing.

As of December 31, 2023, the total Note and US Capital Note balance was $3,294,659 net of unamortized debt issuance costs of $36,194, and accrued interest of $50,037.

On March 4, 2024, the Note principal and related accrued interest balance of $3,233,388 and the US Capital Note principal balance of $200,000 (as further discussed below under the Bridge Loan section) was converted into 359,266 and 100,000 shares of our common stock, respectively. Additionally, warrants to purchase 16,320 shares of our common stock were net settled into 5,594 shares of our common stock.

Bridge Loan

In November 2023, we entered into a Securities Purchase Agreement and raised the private secured Bridge Loan in the aggregate amount of $1,000,000 from five investors. Each Bridge Loan of $200,000 bore no interest but had a cash option value at the date maturity of 120%, or $240,000, of the Bridge Loan at each Bridge Lender's option. The maturity date was the closing date of the Business Combination as defined in Note 1. The Bridge Loan conversion was at $2.00 per share on a post-business combination. On March 4, 2024, 4 of the 5 Bridge Loan holders elected the cash option and were paid an aggregate of $960,000 on the Merger Date.

As of September 30, 2024, there was $0 amount outstanding for the Bridge Loan. As of December 31, 2023, the outstanding amount of the Bridge Loan, excluding the US Capital Note, was $774,337, net of unamortized debt issuance costs of $25,663.

Yorkville Pre-Paid Advance

On March 4, 2024, we received the Pre-Paid Advance of $10,000,000 from Yorkville and issued Yorkville the Yorkville Note in the amount of $10.0 million for such Pre-Paid Advance that was originally due 15 months from the date of issuance, and interest shall accrue on the outstanding balance of the Yorkville Note at an annual rate equal to 6%, subject to an increase to 18% upon an event of default as described in the Yorkville Note. The Yorkville Note is convertible by Yorkville into shares of our common stock. As consideration for the Pre-Paid Advance, immediately prior to, and substantially concurrently with, the closing of the Business Combination, QT Imaging issued to Yorkville that number of QT Imaging shares which converted in the aggregate into 1,000,000 shares of our common stock upon the completion of the Business Combination.

On September 13, 2024, we made a payment of $1,521,581 to Yorkville, which comprised of $1,145,407 of principal, $318,904 of accrued interest, and $57,270 of 5% early payment premium as a result of a trigger event occurring under the terms of the Yorkville Note.

On September 26, 2024, we and Yorkville entered into the Omnibus Amendment, pursuant to which we and Yorkville agreed to amend certain terms of the Yorkville Note to reduce our obligations resulting from certain trigger events. Pursuant to the Omnibus Amendment, the maturity date of the Yorkville Note was extended approximately six months from June 4, 2025 to December 15, 2025. Further, the Omnibus Amendment acknowledges our obligation to make monthly payments to Yorkville due to the occurrence of certain trigger events provided that no further monthly payments will be owed during the period beginning on the date of the Omnibus Amendment and ending on January 15, 2025. In exchange for this relief, beginning on January 15, 2025, and continuing on the same day of each successive calendar month until and including November 15, 2025, whether or not trigger events have occurred, we will make a monthly payment in an amount equal to $500,000 of principal plus a payment premium of 5% and unpaid accrued interest as of each payment date.

As of September 30, 2024, the outstanding amount of the Yorkville Note was $2,980,159 net of the unamortized discount of $5,874,434 and accrued interest of $24,744.

On October 31, 2024, we and Yorkville executed the Second Amendment, pursuant to which the maturity date of the Yorkville Note was extended from December 15, 2025 to March 31, 2026. Further, the Second Amendment acknowledges our obligation to make monthly payments to Yorkville due to the occurrence of the certain trigger events and no further monthly payments will be owed during the period beginning on the date of the Second Amendment and ending on February 15, 2025. In exchange for this relief, beginning on February 15, 2025, and continuing on the same day of each successive calendar month until and including February 15, 2026, whether or not trigger events have occurred and are continuing as of such dates, we will make monthly payments in an amount equal to $500,000 of principal plus a payment premium of 5% and unpaid accrued interest as of each such payment date. Such monthly payments will not be reduced or offset by any amount, including, but not limited to, any net sales proceeds of the immediately prior to, and substantially concurrently with, the closing of the Business Combination, or any value of such shares based on the VWAP as quoted by Bloomberg, LP. Further, pursuant to the terms of the Second Amendment, we elected to reduce the Floor Price to $0.50 per share, effective as of the date of the Second Amendment.

On November 4, 2024, Yorkville converted $254,593 of outstanding principal into 384,059 shares of common stock with an applicable conversion price of $0.6629 per share. The principal balance of the Yorkville Note was $8,600,000 following the conversion notice received from Yorkville.

Cable Car Loan

In February 2024, we and GigCapital5 entered into the Cable Car Loan with Cable Car, pursuant to which Cable Car agreed to advance $1,500,000 at the closing of the Business Combination, as was evidenced by a promissory note that may be convertible in certain circumstances into shares of our common stock at a conversion price of $2.00 per share, dated March 4, 2024, by and between us and Cable Car. The Loan does not bear interest, and is due and payable 13 months after issuance, unless the time for payment is accelerated as a result of an event of default. As full compensation to Cable Car for the Loan to us in lieu of any simple or in-kind interest on the Loan, QT Imaging issued to Cable Car that number of QT Imaging shares of common stock which at the completion of the Business Combination would be converted in accordance with the terms of the Business Combination Agreement into 180,000 shares of our common stock.

As of September 30, 2024, the outstanding amount of the Cable Car Loan was $1,247,374 net of issuance costs of $252,626.

Related Party Convertible Notes Payable

In July 2020, we issued three convertible notes to three of its stockholders for advances up to $3,500,000 in principal (the "2020 Notes") and bearing annual interest of 5% on any amounts drawn. An additional note was issued in March 2022 as part of the 2020 Notes, but with an annual interest rate of 8%. All principal and interest payments are due on or before July 1, 2025. The 2020 Notes are convertible, at the holder's option, into shares of common stock at the lower of $14.59 per share or the offering price in a financing of at least $5,000,000 in equity from unaffiliated parties. As of September 30, 2024, an aggregate of 250,224 shares of common stock would be issued if the entire principal and interest under the 2020 Notes was converted.

As of September 30, 2024 and December 31, 2023, the outstanding amount of the 2020 Notes was $3,143,725 and accrued interest of $507,029 and $377,772, respectively.

Related Party Working Capital Loan and Extension Note

On May 3, 2023, we issued a promissory note (the "Working Capital Note") to a stockholder for a principal amount of $250,000. The Working Capital Note was subsequently amended and restated six times on June 12, 2023 to add an additional principal amount of $100,000, August 15, 2023 to add an additional principal amount of $75,000, August 29, 2023 to add an additional principal amount of $100,000, September 12, 2023 to add an additional principal amount of $75,000, September 15, 2023 to add an additional principal amount of $50,000, and October 26, 2023 to add an additional principal amount of $55,000, for an aggregate principal amount outstanding as of December 31, 2023 under the Working Capital Note of $705,000. The Working Capital Note was issued to provide us with additional working capital during the period prior to consummation of the Business Combination Agreement with GigCapital5. The Working Capital Note is interest-free and originally matured on the earlier of (i) the date on which we consummated the Business Combination with GigCapital5, Inc.; (ii) the date we wind up; or (iii) December 31, 2023. On March 4, 2024, the Working Capital Note was agreed to be amended and subordinated pursuant to and in accordance with the terms of the Business Combination Agreement. Effective on the closing of the Business Combination, the Working Capital Note cannot be repaid prior to the repayment or conversion of the Yorkville Note issued to Yorkville.

On March 4, 2024, we assumed the $1,560,000 outstanding balance of the Extension Note from a related party and pursuant to the Business Combination Agreement. The Extension Note does not bear any interest and cannot be repaid prior to the repayment of the Pre-Paid Advance received from Yorkville. On November 12, 2024, the holder of the Extension Note entered into the securities purchase agreement and will surrender the Extension Note for cancellation in its entirety in exchange for the purchase of shares of common stock and warrants for the purchase of common stock with a purchase price of $1,560,000.

Cash Flows

The following table provides information regarding our cash flows for the periods presented:

	For Nine Months Ended September 30,	
	2024	2023
Net cash used in operating activities	$ (8,806,402)	$ (1,965,772)

Net cash used in investing activities	(34,590)	(25,995)
Net cash provided by financing activities	10,220,475	1,571,181
Net increase (decrease) in cash and restricted cash and cash equivalents	$ 1,379,483	$ (420,586)

Net Cash Used In Operating Activities

Net cash used in operating activities was $8,806,402 for the nine months ended September 30, 2024 as compared to $1,965,772 for the nine months ended September 30, 2023. The primary use of our cash was to fund research and development and general and administrative expenses. Net cash used for the nine months ended September 30, 2024 consisted of a net loss of $9,166,958, adjusted for non-cash expenses primarily including depreciation and amortization of $204,283, stock-based compensation of $166,187, fair value of common stock issued in exchange for services and in connection with non-redemption agreements of $3,718,349, issuance of common stock in connection with a stock subscription agreement of $206,000, warrant modification expense of $200,513, non-cash interest of $2,404,031, decrease in warrant liability of $199,624, decrease in derivative liability of $4,800,000, increase in earnout liability of $700,000, and the net change in operating assets and liabilities of $2,219,821. The net change in operating assets and liabilities was primarily due an increase accounts receivable of $256,886, an increase in prepaid expenses and other current assets of $459,804, a decrease in accounts payable of $2,061,853, a decrease in accrued expenses and other current liabilities of $768,614, and a decrease in deferred revenue of $327,778, partially offset by a decrease in inventory of $1,525,857 and an increase in other current liabilities of $129,257.

Net cash used for the nine months ended September 30, 2023 consisted of a net loss of $4,588,900, adjusted for non-cash expenses including depreciation and amortization of $355,682, stock-based compensation of $612,730, non-cash interest of $32,319, and non-cash operating lease expense of $6,184, partially offset by the net change in operating assets and liabilities of $1,628,457. The net change in operating assets and liabilities was primarily due to a decrease in inventory of $42,252, an increase in accounts payable of $935,742, an increase in accrued expenses and other current liabilities $411,356, an increase in deferred revenue of $300,000, and a decrease in other assets of $10,000, partially offset primarily by an increase in accounts receivable of $18,511 and an increase in prepaid expenses and other current assets of $52,382.

Net Cash Used In Investing Activities

Net cash used in investing activities was $34,590 for the nine months ended September 30, 2024 as compared to $25,995 for the nine months ended September 30, 2023. The use of net cash used in investing activities for both periods was related to the purchase of property and equipment.

Net Cash Provided By Financing Activities

During the nine months ended September 30, 2024, net cash provided by financing activities was $10,220,475, primarily due to $10,525,000 of net proceeds received from issuance of long-term debt related to the Yorkville Pre-Paid Advance and the Cable Car Loan, net proceeds of $1,238,530 received from the Merger, and cash proceeds of $500,000 received from issuance of common stock pursuant to a subscription agreement, partially offset by repayment of the bridge loans of $800,000, and repayments against the Yorkville Note and PPP loans of $1,243,055.

During the nine months ended September 30, 2023, net cash provided by financing activities was $1,571,181, primarily due to $1,017,850 of net proceeds from the sale of QT Imaging common stock and QT Imaging warrants and $650,000 of proceeds received from a related party for the Working Capital Loan, partially offset by repayments against the PPP loans of $96,669.

Future Funding Requirements

We expect to incur increased significant expenses in connection with our ongoing activities, particularly as we continue the research and development of our products and product candidates, seek expanded regulatory clearances for the QT Breast Scanner, and build a U.S. sales and marketing team. As part of the effort to build the sales and marketing capabilities in the United States, QT Imaging entered into the Distribution Agreement, pursuant to which QT Imaging appointed NXC as the non-exclusive agent for the sale of QT Imaging products and services in non-exclusive territories: the U.S., U.S. territories, and U.S. Department of Defense installations. Since our consummation of the Merger, we expect to incur additional costs associated with operating as a public company. Our future funding requirements, both short-and long-term, will depend on many factors, including, without limitation:

- Having the cash to repay our debt obligations as they come due;
- Expand our current manufacturing operations and expand existing and build new partnerships with contract manufacturing third-party vendors;
- Purchase inventory for our planned shipments;
- Expand or enhance our distribution with third-party distribution channels;
- The progress and results of our trials and interpretation of those results by the FDA (and other regulatory authorities, as required);
- Seek regulatory clearances for product candidates and expanded regulatory clearance for the QT Breast Scanner;
- The cost of operating as a public company, including hiring additional personnel as well as increased director and officer insurance premiums, audit and legal fees, investor relations fees and expenses related to compliance with public company reporting requirements under the Exchange Act and rules implemented by the SEC and Nasdaq; and
- The costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending our intellectual property-related claims.

We plan to continue to incur substantial costs in order to conduct research and development activities necessary to develop a commercialized product. Additional capital will be needed to undertake these activities and commercialization efforts. We intend to raise such capital through the issuance of additional equity, borrowings and potential strategic alliances with other companies. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If such financing is not available at adequate levels or on acceptable terms, we could be required to significantly reduce operating expenses and delay, reduce the scope of or eliminate some of our development programs or our commercialization efforts, out-license intellectual property rights to our product candidates and sell unsecured assets, or a combination of the foregoing, any of which may have a material adverse effect on our business, results of operations, financial condition and/or our ability to fund our scheduled obligations on a timely basis, or at all.

Because of the numerous risks and uncertainties associated with manufacturing, research, development and commercialization of products, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on, and could increase significantly as a result of, many factors, including, without limitation:

- The timing, receipt and amount of revenues from the sales of the QT Breast Scanner and related products and services, or any future approved or cleared products and product candidates, if any;
- The cost of future activities, including product sales, medical affairs, marketing, manufacturing and distribution for the QT Breast Scanner;
- The costs, timing, and outcomes of regulatory review of applications for expanded clearances for the QT Breast Scanner and clearance for other products;
- The scope, progress, results and costs of researching, developing and manufacturing our product candidates or any future product candidates, and conducting studies and clinical trials;
- The timing of, and the costs involved in, obtaining regulatory approvals or clearances for our product candidates or any future product candidates;
- The cost of manufacturing our product candidates or any future product candidates and any products we successfully commercialize, including costs associated with building out our manufacturing capabilities;
- The cost and time needed to attract and retain skilled personnel to support our continued growth;
- Our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of any such agreements that we may enter into; and
- The costs associated with being a public company.

Additionally, our operating plans may change, and we may need additional funds to meet operational needs and capital requirements for future trials and other research and development activities. Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of public or private equity offerings, debt financings, collaborations, strategic partnerships or marketing, distribution or licensing arrangements with third parties. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders may be materially diluted, and the terms of such securities could include liquidation or other preferences that adversely affect the rights of our shareholders. Debt financing and preferred equity financing, if available, may involve agreements that include restrictive covenants that limit our ability to take specified actions, such as incurring additional debt, making capital expenditures or declaring dividends. In addition, debt financing would result in increased fixed payment obligations.

If we raise funds through collaborations, strategic partnerships or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or products, or grant licenses on terms that may not be favorable to us.

If we are unable to raise additional funds when needed, we may be required to delay, reduce, or eliminate our product development or future commercialization efforts, or grant rights to develop and market products that we would otherwise prefer to develop and market ourselves.

Our ability to continue as a going concern is dependent upon our ability to successfully accomplish these plans and secure sources of financing and attain profitable operations. If we are unable to obtain adequate capital, we could be forced to cease operations. See the section titled "*Risk Factors*" for additional factors and risks associated with our capital requirements.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements.

Contractual Obligations

We lease our operating facilities in Novato, California, under a non-cancelable operating lease through May 31, 2027. There are no options or rights to extend the term of this lease.

Contingencies

Litigation

We are subject to occasional lawsuits, investigations and claims arising out of the normal course of business. As of the date the condensed consolidated financial statements were available to be issued, management is not aware of any pending claims that will have a material impact on our condensed consolidated financial statements.

Emerging Growth Company

We are an emerging growth company ("EGC"), as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), following the consummation of the Business Combination. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company, or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

In addition, we intend to rely on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if, as an EGC, we intend to rely on such exemptions, we are not required to, among other things: (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act; (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd- Frank Wall Street Reform and Consumer Protection Act; (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board (United States) regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis); and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation.

We will remain an EGC under the JOBS Act until the earliest of (i) the last day of our first fiscal year following the fifth anniversary of the closing of the Business Combination, (ii) the last date of our fiscal year in which we have total annual gross revenue of at least $1.235 billion, (iii) the date on which we are deemed to be a "large accelerated filer," as defined in Rule 12b-2 promulgated under the Exchange Act, or (iv) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the previous three-years.

Critical Accounting and Estimates

The discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, and assumptions, including those related to revenue, inventory and income taxes, among others. Our estimates are derived from historical experience, current conditions and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates. In addition, any change in these estimates or their underlying assumptions could have a material adverse effect on our operating results.

We believe that the accounting policies discussed below are critical to the understanding of our historical and future performance, and these accounting policies involve a significant degree of judgment and complexity. For further information, see the notes to our audited consolidated financial statements attached as Exhibit 99.1 to the Amendment No. 1 to the Current Report on Form 8-K/A filed on March 25, 2024.

Revenue Recognition

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration we expect to be entitled to receive in exchange for these goods or services.

We determine revenue recognition through the following steps:

1. *Identification of the contract, or contracts, with a customer*:

We consider the terms and conditions of the contract in identifying the contracts. We determine a contract with a customer to exist when the contract is approved, each party's rights regarding the goods or services to be transferred can be identified, the payment terms for the goods or services can be identified, it has been determined the customer has the ability and intent to pay, and the contract has commercial substance. At contract inception, we evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract includes more than one performance obligation. We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

2. *Identification of the performance obligations in the contract:*

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or services either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. Our performance obligations consist of (i) product sales, (ii) maintenance contracts and (iii) other services including training.

3. *Determination of the transaction price:*

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring goods or services to the customer. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Our contracts do not contain a significant financing component.

4. *Allocation of the transaction price to the performance obligations in the contract:*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price.

5. *Recognition of revenue when, or as a performance obligation is satisfied:*

For product sales and services, revenue is recognized at the time the related performance obligation is satisfied by transferring the control of the promised goods or services to a customer, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. Training and maintenance services are generally recognized upon invoicing in amounts that correspond directly with the value to the customer of the performance completed to date which primarily includes professional service arrangements entered on a time and materials basis.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the weighted- average cost method. We periodically reviews the value of items in inventory and provides write-offs of inventory that is obsolete. Appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable value. Once inventory has been written down below cost, it is not subsequently written up.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets be reduced by a valuation allowance if it is more-likely-than-not that some or all of the deferred tax asset will not be realized. We annually evaluate the realizability of deferred tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the condensed consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. In accordance with this accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax benefit.

Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. ASU 2020-06 reduces the number of accounting models for convertible instruments and allows more contracts to qualify for equity classification. The Company adopted this guidance effective January 1, 2024, and there was no material impact on the Company’s condensed consolidated financial statements upon adoption.

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires disclosure of incremental segment information on an annual and interim basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and requires retrospective application to all prior periods presented in the financial statements. Early adoption is permitted. We are currently evaluating the impact of the new standard on the condensed consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This ASU is intended to improve the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. The ASU's amendments are effective for public business entities for annual periods beginning after December 15, 2024. Entities are permitted to early adopt the standard for "annual financial statements that have not yet been issued or made available for issuance." Adoption is either prospectively or retrospectively, we will adopt this ASU on a prospective basis. We are currently evaluating the impact of the new standard on the condensed consolidated financial statements and related disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, refers to controls and other procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2024. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Material Weaknesses Identified

In connection with the preparation of our consolidated financial statements as of and for the fiscal year ended December 31, 2023, we identified a material weakness in our internal control over financial reporting related to lack of segregation of duties around key accounting processes resulting from limited personnel resources.

In connection with the review of our condensed consolidated financial statements as of and for the three months ended March 31, 2024, we identified a material weakness in our internal controls over financial reporting related to technical accounting aspects of certain material transactions.

We have begun implementing remedial measures, and while there can be no assurance that our efforts will be successful, we plan to remediate the material weaknesses. These plans include implementing technology, hiring personnel, and other activities, including engaging external resources.

There were no misstatements identified in the condensed consolidated financial statements as of September 30, 2024 and for the three and nine months ended September 30, 2024 as a result of these material weaknesses.

Changes in Internal Control Over Financial Reporting

Other than the remediation efforts related to the material weaknesses which we have commenced as described above, there were no changes in our internal control over financial reporting that occurred in the three months ended September 30, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute 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 its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or any of our officers or directors in their corporate capacity.

Item 1A. Risk Factors

As of the date of this Quarterly Report on Form 10-Q, we supplement the risk factors disclosed in our Annual Report and our Quarterly Reports on Form 10-Q for the periods ending March 31, 2024 and June 30, 2024 (the "Prior 2024 Quarterly Reports") with the following risk factors. Any of these risk factors disclosed in our Annual Report, the Prior 2024 Quarterly Reports or herein could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such risk factors or disclose additional risk factors from time to time in our future filings with the SEC.

The forward-looking statements contained in this Quarterly Report are based on our current expectations and beliefs concerning future developments and their potential effects on us. Future developments affecting us may not be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, the following risks, uncertainties and other factors:

- our being a development-stage company with limited operating history and significant losses;
- our ability to successfully execute our business model, including market acceptance of our planned products and product candidates at acceptable prices;
- the ability to repay our debt cash obligations as they come due;
- the occurrence of a pandemic, epidemic, or outbreak of infectious disease that may materially or adversely affect our business, financials, and product development;
- our ability to raise additional capital;
- the effect of the Company's debt agreements on its flexibility in operating the business;
- our ability to sustain revenue growth or profitability;
- our plan to do business globally is subject to additional risks and uncertainties;
- the success of key supplier or distribution agreements;
- the risk of incurring uninsured losses;
- the ability to maintain the confidentiality and integrity of the Company's data and other sensitive information;
- the ability of the business to respond to changes in general economic conditions;
- the occurrence of technological changes;
- our success in recruiting and retaining key employees;
- the ability to manage growth effectively;
- our ability to compete and adapt in our industry;
- the outcome of any legal proceedings that may be instituted against our business and other litigation and regulatory risks;
- the ability to obtain clearances and approvals from the FDA for current and future products;
- the effect of unanticipated changes in effective tax rates on operations and financials;
- the ability to adequately protect the Company's intellectual property rights;
- the impact of the terms and conditions of licenses and sublicenses granted by third-parties;
- our management team's limited experience managing a public company;
- our officers and directors allocating their time to other businesses and potentially having conflicts of interest with our business;
- the effect of the issuance of additional shares of common stock on our stock price;
- future sales, or perception of future sales, of common stock on our stock price;
- our governing documents' effect on stock price and stockholders' ability to gain favorable judicial forums;
- the effect of the Company's warrants on the market price of the common stock;
- future financial performance following the business combination;
- our ability to enforce covenants not to compete;
- the uncertainty of industry data, projections and estimates;
- the effect of write-downs and write-offs that the Company may be required to take;
- the ability to maintain internal controls over financial reports; and

- the other risks and uncertainties discussed in "Risk Factors" and elsewhere in this Quarterly Report.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

We are a development-stage company with limited operating history and significant losses since inception which may make it difficult to evaluate prospects for our future viability and predict our future performance. We may never be able to effectuate our business plan or achieve any meaningful revenue or reach profitability.

We have a limited operating history and only a preliminary and unproven business plan upon which investors may evaluate our prospects. We have not yet demonstrated the commercial viability at scale of our breast imaging technology platform. QT Scanner 2000 Model A, (the "QT Breast Scanner") is deployed at facilities in the United States and abroad, but we have not demonstrated scale of deployment and manufacturing necessary to achieve commercial viability despite having clearance from the FDA for breast imaging with the QT Breast Scanner. Even if we are able to do so, we may not be able to manufacture the QT Breast Scanner device at the costs needed to support our business model. Even if we are able to commercialize some of our products or product candidates, there can be no assurance that we will generate significant revenues or ever achieve profitability. We expect to continue to incur significant sales and marketing, research and development, regulatory and other expenses as we expand our marketing efforts to increase adoption of our products, expand existing relationships, obtain regulatory approvals for our product candidates, conduct clinical studies on our existing and planned product candidates and develop new product candidates or add new features to our existing products. There is no assurance that our distribution partners will succeed in selling and servicing devices in sufficient volumes to help the company meet its business plan, revenue objectives or profitability.

Furthermore, even if our technology and product become commercially viable and deployed at scale, we may not generate sufficient revenue necessary to support our business. We estimate that effectively stimulating market interest in our QT Breast Scanner will require deploying at least 10 devices in clinical use. We may never achieve these thresholds for devices deployed in the near-to-mid-term at any level or at all, which may cause our business to fail. The medical imaging industry is also highly competitive, and our technology, products, services or business models may not achieve widespread market acceptance. If we are unable to address any issues mentioned above, or encounter other problems, expenses, difficulties, complications, and delays in connection with the starting and expansion of our business, our entire business may fail, in which case you may lose your entire investment.

We have a history of net losses and negative cash flow from operations since inception and we expect such losses and negative cash flows from operations to continue in the foreseeable future. As of September 30, 2024 and December 31, 2023, we had working capital of $0.3 million and a working capital deficit of $2.5 million, respectively, and an accumulated deficit of approximately $32.1 million and $17.8 million, respectively. For the three months ended September 30, 2024 and 2023, we incurred net losses of approximately $3.6 million and $1.4 million, respectively. For the nine months ended September 30, 2024 and 2023, we incurred net losses of approximately $9.2 million and $4.6 million, respectively. For the nine months ended September 30, 2024 and 2023, we used cash in operations of $8.8 million and $2.0 million, respectively. We anticipate our losses will continue to increase from current levels because we expect to incur additional costs related to developing our business, including research and development costs, manufacturing costs, employee-related costs, costs of complying with government regulations, intellectual property development and prosecution costs, marketing and promotion costs, capital expenditures, general and administrative expenses, and costs associated with operating as a public company.

Our ability to generate revenue from our operations and ultimately achieve profitability will depend on factors including but not limited to whether we can complete the development and commercialization of our QT Breast Scanner breast imaging technology and our future products, whether we can manufacture the QT Breast Scanner and future products on a commercial scale in such amounts and at such costs as we anticipate, and whether we can achieve market acceptance of our products, services and business models. The net losses that we incur may fluctuate significantly from period to period. As a result of these increased expenditures, we will need to generate significant additional revenue in order to offset our operating expenses and achieve and sustain profitability. Accordingly, we may not achieve or maintain profitability, and we may continue to incur significant losses in the future. Even if we achieve profitability, we cannot be sure that we will remain profitable for any substantial period of time. If we do not achieve or sustain profitability, it will be more difficult for us to finance our business and accomplish our strategic objectives, either of which would have a material adverse effect on our business, financial condition, results of operations and prospects and may cause the market price of common stock to decline.

Future sales, or the perception of future sales, of common stock by us or our existing stockholders in the public market could cause the market price for our common stock to decline.

The sale of substantial amounts of shares of common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of shares of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

All shares issued as merger consideration in the Business Combination are freely tradable without registration under the Securities Act and without restriction by persons other than our "affiliates" (as defined under Rule 144), including our directors, executive officers and other affiliates, and certain other former QT Imaging stockholders.

The Company has registered in a resale registration statement on Form S-1 declared effective by the SEC on May 22, 2024, securities held by certain stockholders of the Company which have the right, subject to certain conditions, to require us to register the sale of their shares of common stock under the Securities Act, pursuant to the terms of the Registration Rights Agreement. By exercising their registration rights and selling a large number of shares, these stockholders could cause the prevailing market price of shares of common stock to decline.

As restrictions on resale end, the market price of shares of common stock could drop significantly if the holders of these shares sell them or are perceived by the market as intending to sell them. These factors could also make it more difficult for us to raise additional funds through future offerings of shares of common stock or other securities.

In addition, the shares of common stock that will be issued upon exercise of stock options already granted pursuant to the terms of, or those shares of common stock reserved for future issuance under the 2024 Equity Incentive Plan will become eligible for sale in the public market once those shares are issued, subject to provisions relating to various vesting agreements and, in some cases, limitations on volume and manner of sale applicable to affiliates under Rule 144, as applicable. We have filed a registration statement on Form S-8 under the Securities Act to register shares of common stock or securities convertible into or exchangeable for shares of common stock issued pursuant to our equity incentive plans, and may in the future file additional registration statements on Form S-8. Any such Form S-8 registration statements will automatically become effective upon filing. Accordingly, shares registered under such registration statements will be available for sale in the open market.

Sales of shares of our common stock, or the perception of such sales, may have negative pressure on the public trading price of our common stock.

Any stockholders making sales of our common stock will determine the timing, pricing and rate at which they sell the shares. Significant sales of shares of common stock may have negative pressure on the public trading price of our common stock. Even though the current trading price is significantly below the Company's initial public offering price, based on the closing price of the common stock on November 12, 2024, certain private investors may have an incentive to sell their shares because they will still profit on sales due to the lower prices at which they purchased their shares as compared to the public investors.

On November 12, 2024, the closing price of the common stock was $0.478 per share. The initial public offering price of our units was $10.00 per unit, with each unit consisting of one share of common stock and one warrant to purchase one share of common stock at an exercise price of $11.50 per share, which has now been adjusted to $2.30 per share.

It is not possible to predict the actual number of shares we will sell under the SEPA to Yorkville or the actual gross proceeds resulting from those sales. Further, we may not have access to the full amount available under the SEPA with Yorkville.

Effective as of November 15, 2023, we entered into the SEPA with Yorkville, pursuant to which Yorkville has committed to purchase up to $50,000,000 of shares of common stock, subject to certain limitations and conditions set forth in the SEPA. The common stock that may be issued under the SEPA may be sold by us to Yorkville at our discretion from time to time.

We generally have the right to control the timing and amount of any sales of our Common Stock to Yorkville under the SEPA. Sales of the common stock, if any, to Yorkville under the SEPA will depend upon market conditions and other factors to be determined by us. We may ultimately decide to sell to Yorkville all, some or none of the common stock that may be available for us to sell to Yorkville pursuant to the SEPA.

Because the purchase price per share to be paid by Yorkville for the common stock that we may elect to sell to Yorkville under the SEPA, if any, will fluctuate based on the market prices of the common stock prior to each Advance made pursuant to the SEPA, if any, it is not possible for us to predict, as of the date of this Quarterly Report and prior to any such sales, the number of shares of the common stock that we will sell to Yorkville under the SEPA, the purchase price per share that Yorkville will pay for shares purchased from us under the SEPA, or the aggregate gross proceeds that we will receive from those purchases by Yorkville under the SEPA, if any. Under the terms of the SEPA and the Yorkville Note, the floor price, representing the lowest price at which shares may be issued to Yorkville upon conversion of the Yorkville Note, was initially the volume-weighted average price of the common stock for the five trading days immediately prior to the effectiveness of the Registration Statement on Form S-1 that we filed to register the shares to be issued pursuant to the SEPA, which effectiveness occurred on May 22, 2024, or $0.8768 per share. Pursuant to the terms of the Second Amendment, we elected to reduce the floor price to $0.50 per share, effective as of the date of the Second Amendment. As of November 12, 2024, Yorkville has converted $254,593 of outstanding principal under the Yorkville Note into 384,059 shares of common stock with an applicable conversion price of $0.6629 per share.

Moreover, although the SEPA provides that we may sell up to an aggregate of $50,000,000 of shares of common stock to Yorkville, only 25,375,000 shares of common stock are currently registered for resale. If we elect to sell to Yorkville all of the 25,375,000 shares of the common stock being currently registered for resale, depending on the market price of the common stock prior to each advance made pursuant to SEPA, the actual gross proceeds from the sale of all such shares may be substantially less than the $50,000,000 available to us under the SEPA, which could materially adversely affect our liquidity.

If it becomes necessary for us to issue and sell to Yorkville under the SEPA more than the 25,375,000 shares of the common stock currently registered for resale in order to receive aggregate gross proceeds equal to $50,000,000 under the SEPA, we must file with the SEC one or more additional registration statements to register under the Securities Act the resale by Yorkville of any such additional shares of the common stock we wish to sell from time to time under the SEPA, which the SEC must declare effective. Any issuance and sale by us under the SEPA of the common stock in addition to the 25,375,000 shares of the common stock being registered for resale by Yorkville could cause additional dilution to our stockholders.

We are not required or permitted to issue any shares of common stock under the SEPA if such issuance would breach our obligations under the rules or regulations of Nasdaq. In addition, Yorkville will not be required to purchase any shares of common stock if such sale would result in Yorkville's beneficial ownership exceeding 4.99% of the then issued and outstanding common stock. Our inability to access a part or all of the amount available under the SEPA, in the absence of any other financing sources, could have a material adverse effect on our business.

If we do not file and maintain a current and effective prospectus relating to the common stock issuable upon exercise of the warrants, holders will only be able to exercise such warrants on a "cashless basis."

Following the declaration by the SEC of our registration statement on Form S-1 on May 22, 2024, we filed a prospectus relating to the common stock issuable upon exercise of the warrants. If we do not file and maintain a current and effective prospectus relating to the common stock issuable upon exercise of the warrants at the time that holders wish to exercise such warrants, they will only be able to exercise them on a "cashless basis" provided that an exemption from registration is available. As a result, the number of shares of common stock that holders will receive upon exercise of the warrants will be fewer than it would have been had such holder exercised its warrant for cash. Further, if an exemption from registration is not available, holders would not be able to exercise on a cashless basis and would only be able to exercise their warrants for cash if a current and effective prospectus relating to the common stock issuable upon exercise of the warrants is available. Under the terms of the Warrant Agreement, dated as of September 23, 2021, between GigCapital5 and the Transfer Agent (the "Warrant Agreement"), we have agreed to use our best efforts to meet these conditions and to file and maintain a current and effective prospectus relating to the common stock issuable upon exercise of the warrants until the expiration of the warrants. However, we cannot assure you that we will be able to do so. If we are unable to do so, the potential "upside" of the holder's investment in us may be reduced or the warrants may expire worthless.

Certain of the Company's warrants are accounted for as a warrant liability and were recorded at fair value upon issuance with changes in fair value each period reported in earnings, which may have an adverse effect on the market price of the common stock.

As of September 30, 2024, 889,364 Private Placement Warrants and Working Capital Note Warrants were outstanding. These warrants became exercisable 30 days after completion of the Business Combination and are exercisable now that we have an effective registration statement under the Securities Act covering the shares of common stock of the Company issuable upon exercise for so long as a current prospectus relating to them is available and such shares are registered, qualified or exempt from registration under the securities, or blue sky, laws of the state of residence of the holder (or the Company permits holders to exercise their warrants on a cashless basis under certain circumstances). Furthermore, the Company may redeem outstanding warrants in certain circumstances; provided, however, that these warrants will not be redeemable by the Company so long as they are held by the initial purchasers or any of its permitted transferees, to which the initial purchaser transferred the Private Placement Warrants and the Working Capital Note Warrants in June 2024. Under GAAP, the Company is required to evaluate contingent exercise provisions of these warrants and then their settlement provisions to determine whether they should be accounted for as a warrant liability or as equity. Any settlement amount not equal to the difference between the fair value of a fixed number of the Company's equity shares and a fixed monetary amount precludes these warrants from being considered indexed to its own stock, and therefore, from being accounted for as equity. As a result of the provision that these warrants, when held by someone other than the initial purchasers or their permitted transferees, will be redeemable by the Company, the requirements for accounting for these warrants as equity are not satisfied. Therefore, the Company is required to account for these warrants as a warrant liability and record (a) that liability at fair value, and (b) any subsequent changes in fair value as of the end of each period for which earnings are reported. The impact of changes in fair value on earnings may have an adverse effect on the market price of common stock of the Company.

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

The Company entered into a Securities Purchase Agreement, dated November 12, 2024 (the "Securities Purchase Agreement"), by and between the Company and certain members of the Company's Board of Directors and affiliates of such members, (the "Purchasers") for a private placement (the "Private Placement") of securities. The Purchasers include Dr. Avi Katz, Dr. Raluca Dinu, the holder of the Extension Note, GigAcquisitions5, LLC, which is managed by Dr. Katz, Ross Taylor, Zeev Weiner, Daniel Dickson and an affiliate of James Greene. At the closing of the Private Placement, the Company will issue (i) 4,383,558 shares (the "Shares") of the Company's common stock, par value $0.0001 per share (the "Common Stock"); and (ii) warrants with a term of five years from the initial exercise date to purchase up to an additional 4,383,558 shares of Common Stock (the "Warrants" and together with the Shares, the "Securities") to purchase an additional 4,383,558 shares of Common Stock (all of such shares issuable upon exercise of the Warrants, the "Warrant Shares"). Pursuant to the terms of the Securities Purchase Agreement, GigAcquisitions5, LLC is surrendering the Extension Note for cancellation in its entirety in exchange for the purchase of Shares of Common Stock and Warrants for the purchase of Common Stock with a purchase price of $1.56 million.

The purchase price of each Share is $0.584, which represents 110% of the five-day volume weighted trading price for the Common Stock for the five-day period ending on November 12, 2024 (the "Per Share Purchase Price"), and the exercise price of each Warrant is $0.672. The aggregate gross proceeds to the Company from the Private Placement will be approximately $2,560,000, before deducting the offering expenses payable by the Company, which expenses consist solely of legal fees. The Company intends to use the net proceeds from the offering for working capital.

The Securities are being sold without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as a transaction not involving a public offering and Rule 506(b) of Regulation D promulgated under the Securities Act as sales to accredited investors and in reliance on similar exemptions under applicable state laws.

Securities Purchase Agreement

The Securities Purchase Agreement provides that in the event that the shares of Common Stock to be purchased by a Purchaser pursuant to the Securities Purchase Agreement, when aggregated with all other shares of Common Stock then beneficially owned by the Purchaser and its affiliates, would result in the Purchaser having beneficial ownership of more than 4.99% of the outstanding shares of Common Stock (or, at the election of the Purchaser, 9.99%), the Purchaser may elect to purchase Pre-Funded Warrants in lieu of shares of Common Stock pursuant to the terms of the Securities Purchase Agreement. None of the Purchasers has made such an election.

The Securities Purchase Agreement contains customary representations, warranties, and covenants of the Company and each Purchaser on a several and not joint basis, and customary closing conditions, indemnification rights, and other obligations of the parties. The Private Placement is expected to close by November 29, 2024. Under the Securities Purchase Agreement, the Company agreed to use the net proceeds from the sale of the Securities for working capital purposes and to not use such proceeds: (a) for the redemption of any Common Stock or Common Stock Equivalents (as defined in the Securities Purchase Agreement), or (b) in violation of the Foreign Corrupt Practices Act of 1977, as amended, or the regulations promulgated by the Office of Foreign Assets Control of the U.S. Treasury Department. The Securities Purchase Agreement is governed by the laws of the State of New York.

The foregoing summary of the Securities Purchase Agreement is qualified in its entirety by reference to the Securities Purchase Agreement, a copy of which is filed with this Quarterly Report as Exhibit 10.2, and the terms of which are incorporated in this Quarterly Report by reference.

Warrants

Each Warrant will be exercisable for one share of Common Stock at an exercise price of $0.672 per share, and be exercisable beginning 6 months after its issuance at the closing of the Private Placement and ending 5 years after such issuance.

The foregoing summary of the Warrants is qualified in its entirety by reference to the forms of Warrant which is attached as Exhibit C to Exhibit 10.2 filed with this Quarterly Report, the terms of which are incorporated in this Quarterly Report by reference.

Registration Rights Agreement

In connection with the Private Placement, the Company entered into a Registration Rights Agreement with the Purchasers, dated November 12, 2024 (the “Registration Rights Agreement”). The Registration Rights Agreement provides that the Company shall file a registration statement covering the resale of all of the Registrable Securities (as defined in the Registration Rights Agreement) with the SEC) no later than the 30th calendar day following the date of the Registration Rights Agreement, and have the registration statement declared effective by the SEC as promptly as practicable after the filing thereof, but in any event no later than 60th calendar day following the date of the Registration Rights Agreement, or in the event of a “full review” by the SEC, the 90th day following the date of the Registration Rights Agreement.

Upon the occurrence of any Event (as defined in the Registration Rights Agreement), which, among others, prohibits the Purchaser from reselling the Securities for more than ten consecutive calendar days or more than an aggregate of twenty calendar days during any twelve-month period, the Company is obligated to pay to the Purchaser, on each monthly anniversary of each such Event, an amount in cash, as partial liquidated damages and not as a penalty, equal to the product of 0.5% multiplied by the aggregate subscription amount paid by such Purchaser pursuant to the Securities Purchase Agreement.

All fees and expenses incident to the performance of or compliance with the Registration Rights Agreement by the Company will be borne by the Company, whether or not any Shares or Warrant Shares are sold pursuant to a registration statement.

The foregoing summary of the Registration Rights Agreement is qualified in its entirety by reference to the form of Registration Rights Agreement, a copy of which is filed with this Quarterly Report as Exhibit 10.2, and the terms of which are incorporated in this Quarterly Report by reference.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
10.1*	Omnibus Amendment, dated September 26, 2024, by and between YA II PN, LTD and QT Imaging Holdings, Inc. (incorporated by reference to Exhibit 10.1 to QT Imaging Holdings' Current Report on Form 8-K filed with the SEC on September 30, 2024)
10.2*	Second Amendment, dated October 31, 2024, by and between QT Imaging Holdings, Inc. and YA II PN, LTD. (incorporated by reference to Exhibit 10.1 to QT Imaging Holdings' Current Report on Form 8-K filed with the SEC on November 1, 2024)
10.3**	Securities Purchase Agreement, dated November 12, 2024, by and between QT Imaging Holdings, Inc. and certain purchasers
10.4	Registration Rights Agreement, dated November 12, 2024, by and between QT Imaging Holdings, Inc. and certain purchasers
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1***	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2***	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (as formatted as Inline XBRL and contained in Exhibit 101)

* Previously filed and incorporated herein by reference.

** Certain portions of this exhibit have been omitted in accordance with Regulation S-K Item 601(b)(10)(iv) because such portions are not material and are the type of information that the Company treats as private or confidential. The Company agrees to furnish supplementally an unredacted copy of the exhibit, or any section thereof, to the SEC upon request.

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

SIGNATURES

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

QT IMAGING HOLDINGS, INC.

Dated: November 13, 2024	/s/ Dr. Raluca Dinu Name: Dr. Raluca Dinu Title: Chief Executive Officer
Dated: November 13, 2024	/s/ Anastas Budagov Name: Anastas Budagov Title: Chief Financial Officer