
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) March 27, 2024

BigBear.ai Holdings, Inc.

(Exact name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

001-40031
(Commission
File Number)

85-4164597
(IRS Employer
Identification Number)

6811 Benjamin Franklin Drive, Suite 200
Columbia, MD 21046
(Address of principal executive offices, including Zip Code)

(410) 312-0885
(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 | BBAI | New York Stock Exchange |
| Redeemable warrants, each full warrant exercisable for one share of common stock at an exercise price of \$11.50 per share | BBAI.WS | New York Stock Exchange |

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 9.01 Financial Statements and Exhibits.**(a) Financial statement of business acquired**

The audited consolidated balance sheets of Pangiam Ultimate Holdings, LLC as of December 31, 2023 and 2022, the related audited consolidated statements of operations, comprehensive income, changes in members' deficit, and cash flows of Pangiam Ultimate Holdings, LLC for the years ended December 31, 2023 and 2022, the notes related thereto and the Report of Independent Auditors, are attached hereto as Exhibit 99.1 and incorporated herein by reference.

(b) Pro forma financial information

The unaudited pro forma condensed consolidated combined balance sheet of the BigBear.ai Holdings, Inc. and Pangiam Ultimate Holdings, LLC as of December 31, 2023 and the unaudited pro forma condensed combined statement of operations for the period ended December 31, 2023, and the notes related thereto are attached hereto as Exhibit 99.2 and incorporated herein by reference.

(d) Exhibits:

| Exhibit No. | Description |
|------------------------|---|
| 23.1 | <u>Consent of PricewaterhouseCoopers, LLP, Independent Accountants.</u> |
| 99.1 | <u>Audited consolidated financial statements of Pangiam Ultimate Holdings, LLC as of and for the years ended December 31, 2023 and 2022</u> |
| 99.2 | <u>Unaudited pro forma condensed combined balance sheet of BigBear.ai Holdings, Inc. and Pangiam Ultimate Holding, LLC as of December 31, 2023 and statement of operations for the period ended December 31, 2023</u> |
| 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: March 27, 2024

By: /s/ Sean Ricker
Name: Sean Ricker
Title: Chief Accounting Officer

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on FormS-3 (File No 333-265746, File No. 333-271230, File No. 333-269465 and File No. 333-261887) on Form S-8 (No. 333-264127) of BigBear.ai Holdings, Inc. of our report dated March 26, 2024 relating to the financial statements of Pangiam Ultimate Holdings, LLC, which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP
Washington, DC
March 27, 2024

Pangiam Ultimate Holdings, LLC and Subsidiaries
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December 31, 2023 and 2022

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Report of Independent Auditors

To the Board of Managers of Pangiam Ultimate Holdings, LLC

Opinion

We have audited the accompanying consolidated financial statements of Pangiam Ultimate Holdings, LLC and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, of comprehensive income, of changes in members’ deficit and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ PricewaterhouseCoopers LLP

Washington, District of Columbia

March 26, 2024

Pangiam Ultimate Holdings, LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2023 and 2022

| | 2023 | 2022 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 1,039,078 | \$ 3,386,393 |
| Restricted cash | 1,116,883 | 111,715 |
| Accounts receivable, net of allowance for credit losses of \$126,708 as of December 31, 2023 | 7,825,394 | 5,926,568 |
| Income tax receivable | 104,137 | 104,137 |
| Other current assets | <u>312,443</u> | <u>390,046</u> |
| Total current assets | 10,397,935 | 9,918,859 |
| Non-current assets | | |
| Property and equipment, net | 657,044 | 728,599 |
| veriScan software, net | 7,663,460 | 8,732,780 |
| Customer relationships, net | 32,491,296 | 34,485,792 |
| Other intangible assets, net | 3,301,826 | 3,694,254 |
| Goodwill | 14,441,248 | 14,441,248 |
| Right-of-use assets, net | 5,806,513 | 6,105,281 |
| Other non-current assets | <u>1,776,561</u> | <u>752,102</u> |
| Total non-current assets | 66,137,948 | 68,940,056 |
| Total assets | <u>\$ 76,535,883</u> | <u>\$ 78,858,915</u> |
| Liabilities and Members' Deficit | | |
| Current liabilities | | |
| Accounts payable | \$ 4,274,867 | \$ 1,193,224 |
| Accrued compensation | 4,472,192 | 4,117,704 |
| Loans payable and accrued interest | 73,719,678 | 63,346,559 |
| Other accrued expenses | 3,155,538 | 1,057,458 |
| Deferred revenue | 1,245,843 | 554,819 |
| Operating lease liabilities | <u>1,075,408</u> | <u>1,018,758</u> |
| Total current liabilities | 87,943,526 | 71,288,522 |
| Non-current liabilities | | |
| Due to related party | 10,954,948 | 2,868,684 |
| Operating lease liabilities | 6,168,380 | 6,490,587 |
| Deferred tax liability, net | <u>144,391</u> | <u>120,846</u> |
| Total non-current liabilities | 17,267,719 | 9,480,117 |
| Total liabilities | <u>105,211,245</u> | <u>80,768,639</u> |
| Commitments and contingencies (Note 14) | | |
| Members' deficit | | |
| Capital contributions | 66,031,670 | 66,031,670 |
| Accumulated comprehensive income | 20,539 | 2,319 |
| Accumulated deficit | <u>(94,727,571)</u> | <u>(67,943,713)</u> |
| Total members' deficit | (28,675,362) | (1,909,724) |
| Total liabilities and members' deficit | <u>\$ 76,535,883</u> | <u>\$ 78,858,915</u> |

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

Pangiam Ultimate Holdings, LLC and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|-------------------------------------|-------------------------------|-------------------------------|
| Revenue | \$ 40,648,829 | \$ 34,531,916 |
| Cost of revenue | <u>27,669,175</u> | <u>24,390,625</u> |
| Gross margin | 12,979,654 | 10,141,291 |
| Research and development | 9,820,141 | 5,687,904 |
| Selling, general and administrative | 17,056,409 | 19,234,804 |
| Transaction expenses | 3,783,564 | — |
| Depreciation and amortization | 2,415,213 | 2,358,358 |
| Goodwill impairment | <u>—</u> | <u>32,984,777</u> |
| Total operating expenses | <u>33,075,327</u> | <u>60,265,843</u> |
| Operating loss | (20,095,673) | (50,124,552) |
| Interest expense, net | <u>6,451,130</u> | <u>3,096,978</u> |
| Loss before tax | <u>(26,546,803)</u> | <u>(53,221,530)</u> |
| Income tax (expense) benefit | <u>(163,975)</u> | <u>257,887</u> |
| Net loss | <u>\$ (26,710,778)</u> | <u>\$ (52,963,643)</u> |

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

Pangiam Ultimate Holdings, LLC and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|--|-----------------|-----------------|
| Net loss | \$ (26,710,778) | \$ (52,963,643) |
| Other comprehensive income | | |
| Foreign currency translation adjustments, net of tax | 18,220 | 2,319 |
| Total other comprehensive income | 18,220 | 2,319 |
| Comprehensive loss | \$ (26,692,558) | \$ (52,961,324) |

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

Pangiam Ultimate Holdings, LLC and Subsidiaries
Consolidated Statements of Changes in Members' Deficit
Years Ended December 31, 2023 and 2022

| | Capital Contributions | Accumulated Deficit | Accumulated Comprehensive Income | Total Members' Deficit |
|-------------------------------------|----------------------------------|--------------------------------|---|-----------------------------------|
| Balance at December 31, 2021 | \$66,031,670 | \$ (14,980,070) | \$ — | \$ 51,051,600 |
| Net loss | — | (52,963,643) | — | (52,963,643) |
| Other comprehensive income | — | — | 2,319 | 2,319 |
| Balance at December 31, 2022 | \$66,031,670 | \$ (67,943,713) | \$ 2,319 | \$ (1,909,724) |
| Credit loss adjustment | — | (73,080) | — | (73,080) |
| Balance at January 1, 2023 | 66,031,670 | (68,016,793) | 2,319 | (1,982,804) |
| Net loss | — | (26,710,778) | — | (26,710,778) |
| Other comprehensive income | — | — | 18,220 | 18,220 |
| Balance at December 31, 2023 | <u>\$66,031,670</u> | <u>\$ (94,727,571)</u> | <u>\$ 20,539</u> | <u>\$ (28,675,362)</u> |

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

Pangiam Ultimate Holdings, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Net loss | \$ (26,710,778) | \$ (52,963,643) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 3,644,535 | 3,587,680 |
| Goodwill impairment | — | 32,984,777 |
| Non-cash revenue | (20,599) | (22,471) |
| Deferred taxes | 23,545 | (308,549) |
| Unrealized foreign exchange loss | 107,305 | 76,366 |
| Non-cash interest expense | 6,459,382 | 2,166,216 |
| Provision for expected credit losses | 53,628 | — |
| Changes in assets and liabilities | | |
| Accounts receivable | (2,023,586) | (2,666,242) |
| Other current and non-current assets | (989,417) | (598,134) |
| Deposits | — | 2,000,000 |
| Accounts payable | 3,051,002 | (282,361) |
| Accrued compensation | 329,315 | 1,297,102 |
| Other accrued expenses | 2,089,935 | (219,303) |
| Deferred revenue | 691,018 | 266,490 |
| Operating right-of-use assets and operating lease liabilities, net | 33,211 | 1,040,075 |
| Net cash used in operating activities | (13,261,504) | (13,641,997) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (66,736) | (618,877) |
| Purchases of intangible assets | (50,000) | (166,250) |
| Net cash used in investing activities | (116,736) | (785,127) |
| Cash flows from financing activities | | |
| Repayment of term loan | — | (61,199,028) |
| Proceeds from term loan | 4,500,000 | 70,199,028 |
| Proceeds from related party notes | 7,500,000 | 850,000 |
| Net cash provided by financing activities | 12,000,000 | 9,850,000 |
| Effect of foreign exchange rate changes on cash and restricted cash | 36,093 | 5,326 |
| Net decrease in cash and restricted cash during the year | (1,342,147) | (4,571,798) |
| Cash and restricted cash | | |
| Beginning of year | 3,498,108 | 8,069,906 |
| End of year | \$ 2,155,961 | \$ 3,498,108 |
| Supplemental cash flow information | | |
| Cash paid for interest | \$ — | \$ 939,199 |
| Cash paid for taxes | 48,426 | 21,796 |
| Reconciliation of cash and restricted cash reported in the Consolidated Balance Sheets | | |
| Cash | \$ 1,039,078 | \$ 3,386,393 |
| Restricted cash | 1,116,883 | 111,715 |
| Total cash and restricted cash | \$ 2,155,961 | \$ 3,498,108 |

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

1. Business Description

Pangiam Ultimate Holdings, LLC (the “Company” or “Pangiam”) was formed in Delaware on September 29, 2020. The Company is headquartered in McLean, Virginia. The Company is a provider of security solutions, specializing in customized digital identity, biometrics, AI/ML, and advanced analytics software and solutions for global trade, travel, and digital identity industries. Airlines, airports, and US Government agencies are among the Company’s customers relying on vision AI, analytics capabilities, and expertise to streamline operations, secure facilities, and verify identity.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Liquidity

Since inception, the Company has funded operations through proceeds from the issuance of debt and equity to AE Industrial Partners (the Company’s “majority investor”). Management assesses liquidity in terms of the Company’s ability to generate adequate amounts of cash to meet current and future liquidity needs. The expected primary uses of cash on a short and long-term basis are for working capital requirements, capital expenditures, and other general corporate services. The primary working capital requirements are for project execution activities including payroll costs driven primarily by the timing and extent of activities required on new and existing projects. Capital expenditures are primarily related to IT equipment, computers, software, and leases.

The consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Company has incurred net losses and negative cash flows for the years ended December 31, 2023 and 2022 primarily associated with hiring of personnel and investment in technology development to ramp up for expected future contract wins, and professional services. The Company funded its operations during the year ended December 31, 2023 through borrowings from its existing lender under the New Credit Agreement and through borrowings with new promissory notes from the majority investor (Note 9, Debt). The Company’s majority investor has fully guaranteed the Company’s existing debt, as well as new borrowings under the New Credit Agreement. The Company’s New Credit Agreement is due on demand and, as a result, the debt has been classified as a current liability.

The Company drew \$3,500,000 on January 4, 2024 from the New Credit Agreement to fund operations prior to the closing of the Merger Agreement.

In February of 2024, the majority investor created a new legal entity, PG Finance, LLC (“PG Finance”) with a contribution of cash and equity in Pangiam Ultimate Holdings, LLC. PG Finance and any other preemptive rights participants contributed \$109,375,662 to Pangiam Ultimate Holdings, LLC in exchange for 109,375,662 Class A Preferred Units, a newly created class of preferred units of the Company. The Company used the proceeds to repay \$78,287,860 of outstanding debt due under the New Credit Agreement and \$11,087,802 of related party promissory notes, as well as transaction expenses, bonuses and other expenses incurred by the Company.

On February 29, 2024, Pangiam Merger Sub, Inc. closed its Merger Agreement (Note 18, Subsequent Events) and became a wholly-owned subsidiary of BigBear.ai Holdings, Inc. Prior to the merger, the Company satisfied the pre-closing conditions by repaying the debt and transaction expenses (see preceding paragraph).

Management believes that the repayment of debt, funding received in February of 2024, and closing of the Merger Agreement mitigate the need to obtain additional capital infusions from its majority investor to support its ongoing operations for a period of beyond a year from the Company's financial statement issuance date.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses in the consolidated financial statements. Actual results could differ from those estimates. The Company's significant accounting judgments and estimates include the assignment of consideration to acquired assets and assumed liabilities, estimated amortizable lives of long-lived assets and intangible assets, recoverability of intangible assets, goodwill, and other long-lived assets, equity compensation awards, the incremental borrowing rate ("IBR"), and the estimated fair value of the underlying assets in determining lease classification. Although management is not currently aware of any factors that would significantly change its estimates and assumptions, actual results may differ from these estimates.

Cash and Restricted Cash

The Company maintains cash and restricted cash in bank deposit accounts which at times may exceed the United States Federal Deposit Insurance Corporation ("FDIC") coverage of \$250,000 per depositor. The Company maintains a restricted cash balance for funds used for specific purposes which include, but are not limited to, contract letters of credit, collateral, and debt repayment. Restricted cash was required pursuant to the terms of the Company's Original Loan Agreement.

Foreign Currency

The reporting currency of the Company is the U.S. dollar. The functional currency of each subsidiary is the applicable local currency. The Company's foreign subsidiaries operations are translated from the applicable functional currency to the U.S. dollar using the average exchange rates during the reporting period, while assets and liabilities are translated at the period-end exchange rates.

Accounts Receivable, Net

The Company generally records a receivable when revenue is recognized as the timing of revenue recognition may differ from the timing of payment from customers. Payment terms and conditions vary by contract, although terms generally include a requirement of payment within 30 to 75 days. The Company's accounts receivables do not bear interest, and they are recorded at the invoiced amount less an allowance for any potentially uncollectable accounts under the current expected credit loss ("CECL") impairment model and presents the net amount of the financial instrument expected to be collected. The Company includes current unbilled receivables (those with conditional rights to consideration based on anything other than the passage of time) with its billed receivables (those with unconditional rights to consideration) in Accounts receivable, net on the Consolidated Balance Sheet.

The CECL impairment model requires an estimate of expected credit losses, measured over the contractual life of an instrument, which considers forecasts of future economic conditions in addition to information about past events and current conditions. Based on this model, the Company considers many factors, including the age of the balance, collection history, and current economic trends. Bad debts are written off after all collection efforts have ceased. Allowances for credit losses are recorded as a direct reduction from an asset's amortized cost basis. Credit losses and recoveries are recorded in Selling, general and administrative expenses in the Consolidated Statements of Operations. Recoveries of financial assets previously written off, if any, are recorded when received.

Property and Equipment, Net

Property and equipment is recorded at cost, except in the case of acquisitions when it is recorded at fair value. Property and equipment is presented net of depreciation on the Consolidated Balance Sheets. Depreciation is calculated using the straight-line method over the following estimated useful lives:

| | |
|---------------------------------|----------|
| Leasehold improvements | 11 years |
| Furniture & fixtures | 7 years |
| Computer and computer equipment | 3 years |
| Other | 3 years |

Betterments, renewals, and extraordinary repairs that extend the life of an asset are capitalized. Leasehold improvements are depreciated over the shorter of the useful life or the lease term. Expenditures for repairs and maintenance are expensed as incurred and recorded within Selling, general and administrative expense in the Consolidated Statements of Operations.

Intangible Assets, Net

Intangible assets consist of assets acquired as part of business combinations and purchased in the course of normal business operations of the Company. Intangible assets with definite useful lives are amortized as the Company consumes economic benefit over the estimated useful lives of the intangible assets. The Company has no intangible assets with indefinite lives.

In accordance with ASC 360, *Accounting for Impairment or Disposal of Long-Lived Assets*, the intangible assets are reviewed for impairment, whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An estimate of the related undiscounted cash flows over the remaining life of the long-lived asset is utilized in assessing whether an asset has been impaired with an impairment measured based upon the amount by which the carrying amount of the asset exceeds the fair value.

Goodwill

Goodwill is the excess of the purchase price over the estimated fair value of identifiable net assets acquired in business combinations. In accordance with ASU 2021-03, goodwill is tested for impairment on an annual basis at year-end as well as when events or changes in circumstances (i.e., triggering events) indicate the carrying amount of goodwill may not be fully recoverable. Goodwill is considered impaired when its carrying value exceeds its fair value. In such an event, an impairment loss will be recognized equal to the amount of that excess. The Company monitors the existence of potential impairment indicators throughout the year. Goodwill impairment testing is performed at the reporting unit level. The Company may elect to perform either a qualitative test or a quantitative test to determine if it is more likely than not that the

carrying value of a reporting unit exceeds its estimated fair value. Fair value reflects the price a market participant would be willing to pay in a potential sale of the reporting unit. If the estimated fair value exceeds carrying value, then the Company concludes that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its estimated fair value, the Company recognizes an impairment loss in an amount equal to the excess, not to exceed the amount of goodwill assigned to the reporting unit.

Leases

The Company is a lessee and recognizes its leases in accordance with ASU2016-02, "Leases (Topic 842)". The Company determines if an arrangement is a lease at inception. Leases are classified at lease commencement as either operating or finance leases. The Company uses leases to obtain the use of office space. As of December 31, 2023 and 2022, the Company had only one long-term lease. Operating leases are recorded in Right-of-use assets and Operating lease liabilities (current and non-current) on the Consolidated Balance Sheets.

Operating lease liabilities are calculated as the present value of the future minimum lease payments as of the commencement date. Since most lease agreements do not provide an implicit rate, the Company uses its IBR as of the commencement date in estimating the present value of future payments. The IBR is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The IBR is determined considering macro-economic factors such as the specific interest rate curve based on the relevant term, as well as specific factors contributing to the Company's credit spread. Lease terms, for the purpose of determining each lease's present value, include options to extend or terminate the lease if its reasonably certain that the Company will exercise that option. The Company has lease agreements with lease and non-lease components but has elected to not separate non-lease components of a contract from the lease component to which they relate.

Short-term leases less than twelve months in length are not included in the determination of lease liabilities. Lease payments for short-term leases are recognized in net income on a straight-line basis over the lease term and are included in Selling, general and administrative expense on the Consolidated Statements of Operations.

Operating right-of-use assets are the calculated lease liabilities, excluding the lease incentives and initial costs incurred to obtain the lease. Right-of-use assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable from undiscounted cash flows in accordance with ASC 360, *Accounting for Impairment or Disposal of Long-Lived Assets*.

Fair Value Measurements

Fair value is the price that would be received if an asset were sold or the price that would be paid to transfer a liability in an orderly transaction between willing market participants at the measurement date.

ASC 820, *Fair Value Measurements* ("ASC 820"), establishes a framework for measuring fair value. That framework specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – *Quoted prices for identical instruments in active markets;*

Pangiam Ultimate Holdings, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

- Level 2 – *Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and*
- Level 3 – *Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.*

The assets or liabilities fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company did not have Level 1, 2 or 3 fair value assets or liabilities as of December 31, 2023 and 2022.

Loans payable and Due to related party

The estimated fair value of Loans payable and Due to related party is determined by Level 2 inputs and is based on observable market data including interest rate terms of the loans. The Loans payable and Due to related party are recorded at principal plus interest in kind. The carrying amount of the Loans payable and

Due to related party (Note 9, Debt) approximates fair value given the underlying interest rate applied to such amounts outstanding is currently set to the prevailing market rate.

Cash, Restricted cash, Accounts receivable, Other current assets, Accounts payable, Accrued compensation, and Other accrued expenses are reflected on the Consolidated Balance Sheets at amounts that approximate fair value because of the short-term nature of these financial assets and liabilities.

Equity Securities

As part of a revenue arrangement in 2020, the Company received non-cash consideration in the form of non-marketable shares of a privately held company for which the Company does not have the ability to exercise significant influence. Accordingly, the Company accounted for these equity securities by electing the measurement alternative for investments without readily determinable fair values. The non-marketable equity securities are carried at cost of all vested shares less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The equity securities are recorded within Other non-current assets in the Consolidated Balance Sheets. Revenue is recognized over time for the non-cash consideration based on the fair value of the stock determined at contract inception. The measurement alternative election is reassessed each reporting period to determine whether the non-marketable securities continue to be eligible for this election.

The Company tests the equity securities for impairment each reporting period, and as of December 31, 2023 and 2022, no changes in carrying value of the equity investment were recognized under the measurement alternative. No unrealized gains or losses were recognized for the equity securities as of December 31, 2023 and 2022.

Refer to the following rollforward of the equity securities balance:

| | |
|--|--------------------------|
| Balance at December 31, 2021 | \$ 206,834 |
| Recognition of common stock in accordance with ASC 606 | <u>22,471</u> |
| Balance at December 31, 2022 | 229,305 |
| Recognition of common stock in accordance with ASC 606 | <u>20,599</u> |
| Balance at December 31, 2023 | <u>\$ 249,904</u> |

Equity Participation Plans

The Company's equity participation plans (Note 10, Equity Participation Plan) are accounted for in accordance with ASC 718 *Compensation – Stock Compensation* (Class B units), and ASC 710, *Compensation* (Class B Equity Appreciation Rights ("EAR")). ASC 718 requires that all stock-based compensation classified as equity (Class B Tranche I) be recognized as an expense in the financial statements and that such cost be measured based on the grant date fair value of the award. ASC 718 requires that all stock-based compensation classified as liabilities (Class B Tranche II, III & IV) be recognized as an expense in the financial statements and that such cost be measured based on the settlement-date fair value of the award and remeasured for each reporting date through settlement. ASC 710 requires that related stock-based compensation expense (Class B EAR Tranche I, II, III & IV) be recognized when the distribution to the holder is probable and reasonably estimable. Forfeitures are recognized as they occur.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, when control of the promised goods or services is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. For payment terms of one year or less, as a practical expedient, the Company does not adjust the transaction price for the effects of financing. The Company presents revenues net of sales taxes collected.

In determining how revenue should be recognized, the Company follows a five-step process:

- Identification of the contract, or contracts, with a customer.
- Identification of the performance obligations in the contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations.

The Company generates revenue from the performance of various services and sales of products, as defined below:

Services

Services provided to customers generally are on a time and material ("T&M") basis and are performed pursuant to specific statements of work. The Company charges the customer for work performed on an hourly basis at stated rates in the contract. The Company elected the right to invoice practical expedient for most of these arrangements and recognizes revenue over time as services are performed based on the amounts invoiced to the customer.

Consulting

Consulting represents services provided to customers which rely on Company personnel and their experience and knowledge of specific markets and market activity. The Company is usually paid a fixed amount over the period of the contract or upon completion of discrete deliverables identified in the contract. For most consulting arrangements, the Company elected the right to invoice practical expedient and recognizes revenue over time as services are performed based on the amounts invoiced to the customer.

Professional Services

Professional services consist primarily of fees derived from the performance of professional services provided to customers and partners to configure and optimize the use of the Company's solutions, as well as training services related to the configuration and operation of the Company's solutions. Professional services revenue is generally satisfied over time, as services are performed or at a point in time when configuration and optimization services are completed, or training activity is performed. Professional services revenue may include incidental hardware required to deploy the Company's solutions. The customer may purchase the hardware through the Company or may purchase the hardware on its own. Revenue from sales of hardware is generally recognized as of a point in time when the hardware is delivered to the customer.

Subscription SaaS

Subscription SaaS revenue represents subscription term-based licenses sold to customers for solutions deployed on premise within the customer's information technology infrastructure or in a third-party cloud of their choice and maintenance and support. The Company's SaaS subscriptions provide customers the right to access cloud-hosted software and support for the SaaS service, which the Company considers to be a single performance obligation. The Company recognizes revenue over time over the life of the contract term. In connection with SaaS arrangements, the Company also sells professional services for maintenance and support, which the Company considers to be a separate performance obligation.

Software Licenses

Software licenses represent the sale of the Company's intellectual property to customers. Software revenue includes term-based license revenue for solutions sold to customers for development or to be resold by the customer. The Company recognizes revenue from software licenses at the point in time that control passes to the customer. Additional maintenance and support for software licenses are priced separately, which the Company considers to be distinct performance obligations.

For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation based on the estimated standalone price of each performance obligation.

Payment terms of each sales invoice provide for payment within 30 – 75 days of invoicing to the customer. In most arrangements, the Company receives cash consideration in exchange for the sale of services or products. When non-cash consideration is received, the Company evaluates the fair value of the non-cash consideration as of the inception date of the arrangement.

Income Taxes

For U.S. federal income tax purposes, as well as for state income tax purposes in a majority of the states in which the Company operates, the earnings attributable to the Company are included in the tax returns of the partners (the "Partnership"). As a result, except for certain states that impose an income tax on partnerships, no income tax expense is reflected in the consolidated financial statements relating to the earnings of the Partnership. The earnings attributable to the corporate entities are subject to federal and state income tax, and a tax provision is provided for accordingly.

With respect to the corporate entities, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on

deferred tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted. The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more-likely-than-not that some portion of the deferred tax asset will not be realized. The Company records only one net non-current deferred tax asset or liability for each jurisdiction.

ASC 740, *Income Taxes* ("ASC 740"), prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return as well as guidance on de-recognition, classification, interest and penalties and financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company has considered its income tax positions, including any positions that may be considered uncertain by the relevant tax authorities in the jurisdictions in which the Company operates.

The Company recognizes interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense. The Company does not have any amounts accrued relating to interest and penalties as of December 31, 2023 and 2022.

The Company has made an accounting policy election to treat Global Intangible Low Tax Income ("GILTI") as a current year tax expense in the period in which it is incurred. Therefore, the Company does not provide any deferred taxes on GILTI in the consolidated financial statements.

Research and Development

Research and development costs include direct and allocated expenses. Research and development costs are expensed as incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses are included within Selling, general and administrative expense in the Consolidated Statements of Operations and totaled \$139,232, and \$474,556 for the years ended December 31, 2023 and 2022, respectively.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13") with additional updates and amendments being issued in 2018, 2019, 2020 and 2022 (collectively, "ASC 326"). ASU 2016-13 broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The amendments in ASU 2016-13 require an entity to record an allowance for credit losses for certain financial assets, including accounts receivable, based on expected losses rather than incurred losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The new guidance is effective for the years beginning after December 15, 2022, including interim periods. The Company adopted ASC 326 on a modified retrospective basis as of January 1, 2023, through a cumulative-effect adjustment to the Company's beginning retained earnings balance. The adoption of ASU 2016-13 did not have a material impact to the Company's consolidated financial statements or related disclosures. The Company recorded an adjustment of \$73,080 as a reduction to the January 1, 2023 opening balance of accumulated deficit against an allowance for credit losses within the Consolidated Statements of Changes in Members' Deficit.

New Accounting Pronouncements

In December 2023, the FASB issued ASUNo. 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures with the objective to enhance the transparency and decision usefulness of income tax disclosures to better understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities, assess income tax information that affects cash flow forecasts and capital allocation decisions, and identify potential opportunities to increase future cash flows. The new guidance is effective for public entities for years beginning after December 15, 2024, with early adoption permitted. The Company is currently still assessing the potential impact on the consolidated financial statements.

3. Property and Equipment, net

As of December 31, 2023 and 2022, property and equipment and accumulated depreciation balances are as follows:

| | 2023 | 2022 |
|-----------------------------------|-------------------|-------------------|
| Leasehold improvements | \$ 370,166 | \$ 316,676 |
| Furniture & fixtures | 294,349 | 295,512 |
| Computer and computer equipment | 201,477 | 187,067 |
| Other | <u>29,855</u> | <u>29,856</u> |
| Total property and equipment | 895,847 | 829,111 |
| Less: Accumulated depreciation | <u>(238,803)</u> | <u>(100,512)</u> |
| Total property and equipment, net | <u>\$ 657,044</u> | <u>\$ 728,599</u> |

Depreciation expense from property and equipment was \$138,291 and \$89,080 during the years ended December 31, 2023 and 2022, respectively.

The Company performed an impairment assessment of property and equipment as of December 31, 2023 and 2022. Based on the conclusion that the assets were recoverable, no impairment charges were recognized for the years ended December 31, 2023 and 2022.

4. veriScan Software, net

On March 17, 2021, the Company entered into an asset purchase agreement to acquire the software assets of veriScan. The acquired software enables commercial airlines to use facial recognition technology to verify the identity of passengers. The Company paid \$10,693,200, inclusive of third-party costs, all of which was capitalized as veriScan software. The Company evaluated the acquisition in accordance with ASC 805, *Business Combinations*, and concluded the acquisition represented an asset acquisition as substantially all of the fair value of the gross assets acquired was concentrated in the software asset.

The below table presents the carrying value and accumulated amortization of veriScan software for the respective periods.

| | 2023 | 2022 |
|--------------------------|---------------------|---------------------|
| Gross amount | \$ 10,693,200 | \$ 10,693,200 |
| Accumulated amortization | <u>(3,029,740)</u> | <u>(1,960,420)</u> |
| Net carrying value | <u>\$ 7,663,460</u> | <u>\$ 8,732,780</u> |

Changes in the carrying amount of veriScan software for the years ended December 31 are as follows:

| | |
|--------------------------|---------------------|
| December 31, 2021 | \$ 9,802,100 |
| Amortization | <u>(1,069,320)</u> |
| December 31, 2022 | 8,732,780 |
| Amortization | <u>(1,069,320)</u> |
| December 31, 2023 | \$ 7,663,460 |

Estimated future amortization expense related to veriScan software is presented below.

| | |
|------------|---------------------|
| 2024 | \$ 1,069,320 |
| 2025 | 1,069,320 |
| 2026 | 1,069,320 |
| 2027 | 1,069,320 |
| 2028 | 1,069,320 |
| Thereafter | <u>2,316,860</u> |
| | \$ 7,663,460 |

Amortization expense related to veriScan software for the years ended December 31, 2023 and 2022 was \$1,069,320 and is included in Cost of revenue on the Consolidated Statements of Operations. The useful life of the veriScan software is 10 years.

The Company performed an impairment assessment of veriScan software as of December 31, 2023 and 2022. Based on the conclusion that the asset was recoverable, no impairment charges were recognized for the years ended December 31, 2023 and 2022.

5. Customer Relationships, net

The below table presents the carrying value and accumulated amortization of Customer relationships for the respective periods.

| | 2023 | 2022 |
|--------------------------|----------------------|----------------------|
| Gross amount | \$ 38,790,000 | \$ 38,790,000 |
| Accumulated amortization | <u>(6,298,704)</u> | <u>(4,304,208)</u> |
| Net carrying value | \$ 32,491,296 | \$ 34,485,792 |

Changes in the carrying amount of Customer relationships for the years ended December 31 are as follows:

| | |
|--------------------------|----------------------|
| December 31, 2021 | \$ 36,480,290 |
| Amortization | <u>(1,994,498)</u> |
| December 31, 2022 | 34,485,792 |
| Amortization | <u>(1,994,496)</u> |
| December 31, 2023 | \$ 32,491,296 |

Estimated future amortization expense related to Customer relationships is presented below.

| | |
|------------|----------------------|
| 2024 | \$ 1,994,496 |
| 2025 | 1,994,496 |
| 2026 | 1,994,496 |
| 2027 | 1,994,496 |
| 2028 | 1,994,496 |
| Thereafter | 22,518,816 |
| | <u>\$ 32,491,296</u> |

Amortization expense related to Customer relationships for the years ended December 31, 2023 and 2022 was \$1,994,496 and \$1,994,498, respectively, and is included in Depreciation and amortization on the Consolidated Statements of Operations. The useful life of the Customer relationships is 10 – 20 years.

The Company performed an impairment assessment of the customer relationships as of December 31, 2023 and 2022. Based on the conclusion that the assets were recoverable, no impairment charges were recognized for the years ended December 31, 2023 and 2022.

6. Other Intangible Assets, net

The below table presents the carrying value and accumulated amortization of other intangible assets for the respective periods.

| | December 31, 2023 | | |
|------------|---------------------|--------------------------|---------------------|
| | Gross Amount | Accumulated Amortization | Net Carrying Value |
| Datasets | \$ 2,824,250 | \$ (709,089) | \$ 2,115,161 |
| Technology | 1,600,000 | (413,335) | 1,186,665 |
| Total | <u>\$ 4,424,250</u> | <u>\$ (1,122,424)</u> | <u>\$ 3,301,826</u> |

| | December 31, 2022 | | |
|------------|--------------------|--------------------------|---------------------|
| | Gross Amount | Accumulated Amortization | Net Carrying Value |
| Datasets | \$2,774,250 | \$ (426,663) | \$ 2,347,587 |
| Technology | 1,600,000 | (253,333) | 1,346,667 |
| Total | <u>\$4,374,250</u> | <u>\$ (679,996)</u> | <u>\$ 3,694,254</u> |

Changes in the carrying amount of other intangible assets for the years ended December 31 are as follows:

| | Datasets | Technology | Total |
|--------------------------|--------------------|---------------------|---------------------|
| December 31, 2021 | \$2,456,117 | \$ 1,506,669 | \$ 3,962,786 |
| Purchases | 166,250 | — | 166,250 |
| Amortization | (274,780) | (160,002) | (434,782) |
| December 31, 2022 | <u>2,347,587</u> | <u>1,346,667</u> | <u>3,694,254</u> |
| Purchases | 50,000 | — | 50,000 |
| Amortization | (282,426) | (160,002) | (442,428) |
| December 31, 2023 | <u>\$2,115,161</u> | <u>\$ 1,186,665</u> | <u>\$ 3,301,826</u> |

Estimated future amortization expense related to other intangible assets is presented below.

| | |
|------------|---------------------|
| 2024 | \$ 442,428 |
| 2025 | 442,428 |
| 2026 | 442,428 |
| 2027 | 442,428 |
| 2028 | 442,428 |
| Thereafter | 1,089,686 |
| | <u>\$ 3,301,826</u> |

Amortization expense related to Technology was \$160,002 for the years ended December 31, 2023 and 2022 and is included in Cost of revenue on the Consolidated Statements of Operations. The useful life of the Technology is 10 years. Amortization expense for Datasets were \$282,426 and \$274,780 for the years ended December 31, 2023 and 2022, respectively, and is included in Depreciation and amortization on the Consolidated Statements of Operations. The useful life of the Datasets is 10 years.

The Company performed an impairment assessment of the other intangible assets as of December 31, 2023 and 2022. Based on the conclusion that the assets were recoverable, no impairment charges were recognized for the years ended December 31, 2023 and 2022.

7. Goodwill

Goodwill is primarily attributable to the acquisition of Linkware, LLC and Pre, LLC in 2020 and Trueface in 2021. These acquisitions were accounted for as business combinations under ASC 805, *Business Combinations*. For purposes of the goodwill impairment test as of December 31, 2023 and 2022, goodwill was assigned to two reporting units: Government Solutions and Commercial Solutions.

The Company completed a quantitative impairment assessment of goodwill as of December 31, 2022 and recorded anon-tax-deductible impairment loss of \$32,984,777. The Company utilized an income approach to estimate the fair value of each reporting unit. The income approach is based on projected cash flows which are discounted to the present value using discount rates that consider the timing and risk of cash flows. The discount rate used is the value-weighted average of the reporting unit's estimated cost of equity and of debt ("cost of capital"). The weighted average cost of capital is adjusted by reporting unit to reflect a risk factor, if necessary. Other significant assumptions include future working capital requirements. The Company did not identify any impairment indicators and did not record any goodwill impairment loss for the year ended December 31, 2023.

The following table summarizes the changes in the carrying amount of goodwill:

| | |
|------------------------------|----------------------|
| Balance at December 31, 2021 | \$ 47,426,025 |
| Impairment | (32,984,777) |
| Balance at December 31, 2022 | <u>14,441,248</u> |
| Balance at December 31, 2023 | <u>\$ 14,441,248</u> |

8. Leases

During the year ended December 31, 2021, the Company entered into a long-term operating lease for office space for the new Company headquarters ("HQ lease"). In addition to base rent, the HQ lease requires

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additional payments to cover common area maintenance charges incurred and to pass along increases in real estate taxes. At the lease commencement date, the Company classified its HQ lease as an operating lease.

The HQ lease is for 12 years and expires in July 2033. One five-year option period is available, which as of lease commencement and as of December 31, 2023, was not reasonably expected to be exercised. The Company has an early termination option that can be exercised between 12 and 15 months preceding the seven-year anniversary of the lease commencement date. The Company received abated rent and a tenant improvement allowance to build out the space, which was determined to substantially represent a lessor asset. Rent escalates on an annual basis at 2.75%.

No impairment of the right-of-use assets was recognized for the years ended December 31, 2023 and 2022.

| | 2023 | 2022 |
|--------------------------|-------------|-------------|
| Right-of-use assets | \$6,591,936 | \$6,591,936 |
| Accumulated amortization | (785,423) | (486,655) |
| Right-of-use-assets, net | \$5,806,513 | \$6,105,281 |

The future annual minimum lease payments contractually due on the Company's HQ lease as of December 31, 2023 were as follows:

| | |
|--|--------------|
| 2024 | \$ 1,075,408 |
| 2025 | 1,104,996 |
| 2026 | 1,135,293 |
| 2027 | 1,166,423 |
| 2028 | 1,198,473 |
| Thereafter | 5,924,280 |
| Total future annual minimum lease payments | 11,604,873 |
| Less: Amount related to imputed interest | (4,361,085) |
| Total operating lease liabilities | 7,243,788 |
| Less: Current portion | (1,075,408) |
| Operating lease liability, non-current | \$ 6,168,380 |

The Company had rent concessions for the year ended December 31, 2022. No rent concessions were received for the year ended December 31, 2023. Lease expense is recognized on a straight-line basis in accordance with ASC 842 for an operating lease. Lease expense is included within Selling, general and administrative expense on the Consolidated Statements of Operations.

| | 2023 | 2022 |
|--------------------------|--------------|--------------|
| Operating lease expense | \$ 1,051,968 | \$ 1,051,968 |
| Short term lease expense | 131,561 | 27,392 |
| Variable lease expense | 4,247 | — |
| Total rent expense | \$ 1,187,776 | \$ 1,079,360 |

Additional information about the Company's operating leases as of December 31, 2023 and 2022 is as follows:

| | 2023 | 2022 |
|--|-------------|------------|
| Weighted-average remaining lease term | 9.6 years | 10.6 years |
| Incremental borrowing rate | 10.17% | 10.17% |
| Cash paid for amounts included in the measurement of lease liabilities, operating cash flows | \$1,018,763 | \$ — |

The right-of-use assets include nil and \$86,225 of prepaid rent as of December 31, 2023 and 2022, respectively.

9. Debt

Related Party Promissory Notes

During 2021, the Company received a loan of \$2,000,000 from the majority investor. The loan was used by the Company to provide a bidding deposit on a project during 2021 (the bidding deposit was returned to the Company in 2022). In 2022, the loan was increased by \$850,000, and converted into promissory notes on November 29, 2022 due in November 2023. The promissory notes with the majority investor totaled \$2,850,000 for the amounts received as of December 31, 2022. The interest rate is one-month term secured overnight financing rate ("SOFR"), plus 3.25%, effective from November 29, 2022, and interest is paid-in-kind until the principal is due. During 2023, the Company borrowed an additional \$7,500,000 of new promissory notes from the majority investor through October 2023. On October 23, 2023, the Company refinanced its promissory notes with the majority investor to extend the maturity date to November 29, 2025.

On December 31, 2023 and 2022, the interest rate was 8.59% and 7.37%, respectively. The outstanding balances including accrued nominal interest of \$604,948 and \$18,684 on the related party promissory notes were \$10,954,948 and \$2,868,684 as of December 31, 2023 and 2022, respectively, and are presented as a non-current liability in the Consolidated Balance Sheets, respectively.

Scheduled payments on outstanding promissory notes with the majority investor as of December 31, 2023 are as follows:

| Years ending December 31, | |
|--|----------------------|
| 2024 | \$ — |
| 2025 | <u>10,954,948</u> |
| Total related party promissory notes outstanding | <u>\$ 10,954,948</u> |

Original Loan Agreement

The Company entered into a loan agreement with a third-party lending institution dated December 30, 2020 (the "Original Loan Agreement") for \$28,800,000 at a 2.75% interest rate. The Original Loan Agreement was guaranteed by the majority investor, and matured at the earlier of December 31, 2021, or the guarantor facility maturity date (i.e., October 3, 2022).

During 2021, the Company executed four amendments to the Original Loan Agreement to receive an additional \$32,689,340 and extend the maturity date to October 3, 2022. An amount of \$9,300,000 was repaid on March 29, 2021.

On January 31, 2022, the Company entered into Amendment #5 to the Original Loan Agreement resulting in a term loan advance of \$9,000,000 being made to the Company.

On June 3, 2022, the balance of \$61,199,028 under the Original Loan Agreement was refinanced, whereby the Company entered into a new promissory note with a new third-party financial institution (the "New Credit Agreement"). As there was a change in the lender, the transaction described above was accounted for as a debt extinguishment for accounting purposes and did not result in a gain or loss. The Company did not incur material transaction costs in entering into the new credit agreement.

New Credit Agreement

The New Credit Agreement is a credit facility of the majority investor where the Company is a qualified borrower. The New Credit Agreement provides for a maximum outstanding principal of \$350,000,000 and is fully guaranteed by the majority investor and is repayable on demand. Under the provisions of the agreement and subsequent amendments, any outstanding borrowings bear interest monthly at a variable rate of 3.25%, plus one-month SOFR. Interest payments on the New Credit Agreement will be paid entirely in kind with such amounts capitalized to the outstanding principal amount monthly. The demand notice period on the New Credit Agreement is 15 business days. If not terminated earlier, the New Credit Agreement terminates upon the last date on which the majority investor may issue capital calls. The interest rate at December 31, 2023 and 2022 was 8.59% and 7.37%, respectively.

The New Credit Agreement does not include any financial covenants.

As the principal outstanding under the New Credit Agreement is payable on demand, it was classified as a current liability on the Consolidated Balance Sheets. During the year ended December 31, 2023, the Company made a draw of \$4,500,000. The outstanding loan payable and accrued interest under the New Credit Agreement was \$73,719,678 and \$63,346,559, of which accrued interest was \$8,020,650 and \$2,147,532, as of December 31, 2023 and 2022, respectively.

10. Equity Participation Plan

The Company was formed pursuant to a Limited Liability Company Agreement on September 29, 2020, which was amended and restated on October 30, 2020 ("A&R LLC Agreement"). Pursuant to the terms of the A&R LLC Agreement, a Board of Managers was created with each manager having a vote. The Board of Managers may elect to issue Class A units and/or Class B units, all of which are non-voting. The Board of Managers has the authority to issue units and shall determine the number of authorized units to issue.

The Company has two equity participation plans. Class B units are issued to eligible employees based in the United States. Class B Equity Appreciation Rights ("Class B EAR") are issued to eligible employees based outside of the United States. Class A units are issued primarily to its private equity investors as capital interests and do not represent participation plans. The Board of Managers is authorized to issue additional units of all unit classes.

Class A Units

The Company had 66,031,670 units issued and outstanding as of December 31, 2023 and 2022. The Company did not issue units for the years ended December 31, 2023 and 2022. The Board of Managers is authorized to issue 66,031,670 units and may issue additional units. Class A units vest immediately upon issuance and cannot be forfeited. The Class A units represent capital interests in the Company as unitholders have an immediate claim to the assets of the Company upon a liquidation event. As such contributions are accounted for as equity contributions under ASC 505, *Equity*.

Class B Units

Class B units issued and outstanding, as well as granted and forfeited, under the Class B unit plan are presented in the table in Note 11, Unit-based compensation. The Class B units represent profit units and are granted to enable employees to share in the proceeds should a liquidation event take place. The Board of Managers is authorized to issue 14,645,099 Class B units and is authorized to issue additional Class B units.

The Class B units are classified into four tranches, tranche I, II, III and IV, each with varying participation thresholds (\$1.00 or \$4.29 per unit) and vesting conditions.

Vesting conditions for tranche I units are based on service conditions (ratably over 5 years) and performance conditions (measurement date IRR equals or exceeds 8% cumulatively). All tranche I units automatically vest with regards to the service condition upon the consummation of a sale of the Company. All tranche I units automatically vest upon the achievement of the performance condition. A holder of tranche I units that is a good leaver retains their vested units after being employed by the Company, although the Company and its investors have the ability to repurchase the outstanding units within 180 days at fair market value.

Vesting conditions for tranche II, III and IV units are based on performance conditions (e.g., investor inflows are at least 2.0 times the investor outflows, measurement date IRR equals or exceeds 15%) and on a sale of the Company. A holder of tranche II, III and IV units forfeits their units when they are no longer employed by the Company.

The Company accounts for Class B units as equity (Tranche I) and liability (Tranche II, III, and IV) awards under ASC 718, *Stock Compensation*.

Class B Equity Appreciation Rights

Class B EAR units issued and outstanding, as well as granted and forfeited, under the Class B EAR unit plan are presented in the table in Note 11, Unit-based compensation. The Class B EAR units are not equity interests in the Company and instead represent a requirement of the Company to make a cash payment upon the achievement of certain conditions and are accounted for as liability awards under ASC 710, *Compensation—General*. The Board of Managers is authorized to issue 1,970,000 Class B EAR units and is authorized to issue additional Class B EAR units.

The Class B EAR units are classified into four tranches, tranche I, II, III and IV, with a participation threshold of \$4.29. The vesting conditions are the same as those outlined above for the Class B units.

11. Unit-based Compensation

Allocation of Profits and Losses

Profits and losses shall be allocated among the unitholders in such a manner that would result in the capital accounts at year-end equaling the amount that would be distributed to such unitholders under a deemed liquidation event after satisfying all debts. A requirement does not exist for unit holders to contribute to the Company if a loss is present.

Determining Fair Value – Unit-based awards with service and market conditions

The Company assessed the fair value of unit-based awards with service and market conditions (Class B Tranche I) as of the various grant dates in 2020, 2021, and 2022 in accordance with ASC 718. No grants were made during 2023. The Company assessed the fair value of these units based on a Black-Scholes option pricing model, adjusted for the volatility of similar companies. The results of the model concluded the fair value of these awards to be negligible and as a result, the fair value of the awards as well as the compensation expense associated with such awards was deemed to be immaterial. A liquidation of the Company at any point to date would not have resulted in a distribution to any Class B unit holders and there are no reasonably estimable future conditions that would result in a change to that position. Because of the above assessment no related compensation expense was recorded.

Determining Fair Value – Assumptions

Key assumptions used in the Black-Scholes option pricing model as the method of valuation are summarized as follows:

Expected volatility: The Company estimates the volatility of its Class B Tranche I shares at the grant date based on the historical volatility of similar publicly traded companies.

Dividend yield: The dividend yield assumption was \$0 based on the Company's historical and projected dividend payouts.

Risk-free interest rate: The risk-free interest rate is based on the observed interest rates appropriate for the term of the Company's employee stock options.

Amortization period: The amortization period aligns with the requisite service periods associated with the awards.

Discount for post-vesting restrictions: Awards with participation thresholds of \$4.29 were discounted incrementally as compared with those awards with a threshold of \$1 based on a quantitative assessment showing the significant deficit these units needed to overcome in order to participate in a distribution.

Share price: The fair value of the Company's stock price is based on recent transactions.

Unit-Based Compensation Expense

Class B Tranche I—Tranche I units are treated as equity. ASC 718 requires that all stock-based compensation classified as equity be recognized as an expense in the financial statements and that such cost be measured based on the grant date fair value of the award. The Company evaluated the fair value of the granted Class B Tranche I units on each grant date and concluded the fair value to be negligible. While the Class B Tranche I units have vested ratably over the period based on the service conditions, the fair value of the awards is negligible, therefore, the Company has not recognized any expense for any of the Class B Tranche I awards during the years ended December 31, 2023 or 2022.

Class B Tranche II—IV—Tranche II, III, & IV units are treated as liabilities. ASC 718 requires that all stock-based compensation classified as liabilities be recognized as an expense in the financial statements and that such cost be measured based on the grant date fair value of the award and remeasured for each reporting date through settlement. The fair value of the awards, determined on the grant date of each award is negligible and the vesting conditions have not been met, therefore, no compensation expense was recorded for the years ended December 31, 2023 or 2022.

Class B EAR - Stock-based compensation subject to ASC 710 requires recognition when the distribution to the holder is probable and reasonably estimable. No distribution is probable or reasonably estimable as of December 31, 2023 and 2022 and thus, no compensation expense was recorded.

As a result of the fair value being determined to be negligible, the weighted average grant date was also determined to be immaterial.

Forfeitures are recognized as they occur for all above units.

Distributions

In accordance with the A&R LLC Agreement, distributions shall be made to the Class A and Class B unitholders as follows:

- Class A units: An amount equal to the amount determined by dividing the Grossed-Up Amount (the sum of (a) the available amount of such distribution and (b) the aggregate amount of the participation

Pangiam Ultimate Holdings, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

thresholds of all participating Class B units, as described in the A&R LLC Agreement) by the number of Participating Units, and

- Class B units: An amount equal to the excess of (x) the amount determined by dividing the Grossed-Up Amount by the number of Participating units over (y) the Participation Threshold in respect of such Participating Class B Unit.

As of December 31, 2023 and 2022, members' deficit based on a hypothetical deemed liquidation of the business would have all been allocated to the Class A Units. No amounts would have been allocated to the Class B or Class B EAR units. Issued and outstanding units were as follows:

| | Class A | Class B ⁽¹⁾ | | Class B EAR ⁽¹⁾ | | Total Class B & Class B EAR |
|--|------------|------------------------|---------------|----------------------------|---------------|--------------------------------|
| | | Tranche I | Tranche II-IV | Tranche I | Tranche II-IV | |
| Outstanding as of December 31, 2021 | 66,031,670 | 2,119,689 | 8,381,281 | 30,000 | 120,000 | 10,650,970 |
| Issued | — | 711,862 | 2,847,447 | 364,000 | 1,456,000 | 5,379,309 |
| Forfeited | — | (469,862) | (2,143,766) | — | — | (2,613,628) |
| Outstanding as of December 31, 2022 | 66,031,670 | 2,361,689 | 9,084,962 | 394,000 | 1,576,000 | 13,416,651 |
| Vested (1) | 66,031,670 | 790,608 | — | 12,000 | — | 802,608 |
| Outstanding as of December 31, 2022 | 66,031,670 | 2,361,689 | 9,084,962 | 394,000 | 1,576,000 | 13,416,651 |
| Issued | — | 1,000 | 4,000 | — | — | 5,000 |
| Forfeited | — | (37,579) | (250,515) | (8,000) | (40,000) | (336,094) |
| Outstanding as of December 31, 2023 | 66,031,670 | 2,325,110 | 8,838,447 | 386,000 | 1,536,000 | 13,085,557 |
| Vested (1) | 66,031,670 | 1,237,039 | — | 90,800 | — | 1,327,839 |

- (1) Class B Tranche II, III, & IV Units are all conditional on the sale of the Company which had not occurred as of December 31, 2023 or 2022. Unlike Tranche I units, these units are forfeited upon non-employment with the Company. As such no Tranche II, III, & IV units have been deemed as vested.

Vesting activity and the volume of unvested units are shown below. Class B Tranche II, III, & IV units are forfeited upon non-employment with the Company so both classes have been excluded from the table.

| | Class B Tranche I | Class B EAR Tranche I |
|----------------------------------|-------------------|-----------------------|
| Unvested as of December 31, 2021 | 1,710,231 | 24,000 |
| Granted | 711,862 | 364,000 |
| Vested | (381,150) | (6,000) |
| Forfeited | (469,862) | — |
| Unvested as of December 31, 2022 | 1,571,081 | 382,000 |
| Vested | (446,431) | (78,800) |
| Forfeited | (37,579) | (8,000) |
| Unvested as of December 31, 2023 | 1,087,071 | 295,200 |

12. Income Taxes

Loss before taxes includes the following components:

| | 2023 | 2022 |
|-------------------|------------------------|------------------------|
| Loss before taxes | | |
| United States | \$ (27,126,363) | \$ (53,460,862) |
| Foreign | 579,560 | 239,332 |
| | <u>\$ (26,546,803)</u> | <u>\$ (53,221,530)</u> |

The components of the provision for income taxes for the year ended December 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|------------------------------------|-------------------|---------------------|
| Current expense | | |
| State | \$ 149 | \$ 3,850 |
| Foreign | 140,281 | 46,812 |
| Total current expense | 140,430 | 50,662 |
| Deferred expense (benefit) | | |
| Federal | 11,076 | (21,421) |
| State | 12,469 | (287,128) |
| Total deferred expense (benefit) | 23,545 | (308,549) |
| Total income tax expense (benefit) | <u>\$ 163,975</u> | <u>\$ (257,887)</u> |

A reconciliation of the Company's statutory income tax rate to the Company's effective income tax rate for each period is as follows:

| | 2023 | 2022 |
|--|-------------------|---------------------|
| Income tax at statutory federal rate | \$ (5,567,103) | \$ (11,176,521) |
| Increase (reduction) in income taxes resulting from: | | |
| State taxes, net of Federal benefit | (995,278) | (1,677,973) |
| Foreign rate differential | 14,669 | (4,787) |
| Non-deductible goodwill | — | 3,467,955 |
| Transaction costs | 428,562 | — |
| Permanent differences | 13,001 | 6,544 |
| Other | 308 | 28,208 |
| Valuation allowance | 6,269,816 | 9,098,687 |
| Total income tax expense (benefit) | <u>\$ 163,975</u> | <u>\$ (257,887)</u> |

Our effective tax rates were (0.6%) and 0.5% for the years ended December 31, 2023 and 2022, respectively. Our effective tax rates were below the 21% statutory rate primarily due to non-deductible goodwill and an increase in the valuation allowance offset by state taxes.

Pangiam Ultimate Holdings, LLC and Subsidiaries
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The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities consist of the following on December 31, 2023 and 2022:

| | 2023 | 2022 |
|---|--------------|--------------|
| Deferred tax assets: | | |
| Accrued expenses and other | \$ 859,006 | \$ 763,856 |
| Research and development credit carryforwards | 238,807 | 238,807 |
| Net operating loss carryforwards | 10,576,494 | 8,014,923 |
| Deferred interest | 1,637,671 | — |
| Goodwill | 2,762,008 | 3,225,289 |
| Intangible assets | 1,991,635 | — |
| Lease liabilities | 1,836,544 | 1,920,694 |
| Total deferred tax assets | 19,902,165 | 14,163,569 |
| Valuation allowance | (18,457,844) | (12,163,114) |
| Net deferred tax assets | 1,444,321 | 2,000,455 |
| Deferred tax liabilities: | | |
| Intangible assets | \$ — | \$ (379,166) |
| Property and equipment | (111,392) | (143,439) |
| Right-of-use assets | (1,472,147) | (1,561,571) |
| Other | (5,173) | (37,125) |
| Total deferred tax liabilities | (1,588,712) | (2,121,301) |
| Net deferred tax liabilities | \$ (144,391) | \$ (120,846) |

The Company's ability to utilize its deferred tax assets is based on a number of factors including the Company's ability to generate substantial taxable income in future periods and the duration of statutory carryforward periods. Valuation allowances are established against the Company's deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" threshold. The Company established a valuation allowance against deferred tax assets as presented above.

As of December 31, 2023, and 2022, the Company has U.S. federal net operating loss carryforwards of \$41,162,026 and \$30,916,271, which begin to expire from 2033 through 2037. In addition, the Company has research and development tax credits of \$238,807 which begin to expire in 2040. Utilization of the net operating loss carryforwards are subject to various limitations including the ownership change limitations provided by Internal Revenue Code (IRC) Section 382 and similar state provisions.

The Company recognized a valuation allowance against deferred tax assets of \$18,457,844 and \$12,163,114 as of December 31, 2023 and 2022, respectively. The valuation allowance increased by \$6,294,730 for the year ended December 31, 2023, compared to the increase of \$9,055,365 for the year ended December 31, 2022. The increase in the valuation allowance is a result of current year losses not tax benefited. The Company believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a valuation allowance has been recorded. These factors include the Company's history of net losses since its inception.

The Company continues to assert its intention to reinvest undistributed foreign earnings indefinitely with respect to its foreign operations. Accordingly, a provision has not been made at December 31, 2023 and 2022 for U.S. or additional foreign withholding taxes on the undistributed earnings of foreign subsidiaries.

The Company's policy is to recognize interest and penalties associated with uncertain tax benefits as part of the income tax provision and include accrued interest and penalties with the related income tax liability on

Pangiam Ultimate Holdings, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

the Company's Consolidated Balance Sheets. To date, the Company has not recognized any interest and penalties in its Consolidated Statements of Operations, nor has it accrued for or made payments for interest and penalties. The Company has no material unrecognized tax benefits as of December 31, 2023 and 2022.

Fiscal years ending December 31, 2020, and later remain subject to examination by U.S. Federal authorities and various state authorities. There are currently no audits in progress.

13. Revenue

The Company generates revenue from the performance of various services and sales of products (Note 2, Summary of Significant Accounting Policies). The following table presents revenue disaggregated by timing of revenue recognition:

| | 2023 | 2022 |
|---------------------------------------|----------------------|----------------------|
| Revenue recognized over time | \$ 35,165,553 | \$ 32,024,169 |
| Revenue recognized at a point in time | 5,483,276 | 2,507,747 |
| | <u>\$ 40,648,829</u> | <u>\$ 34,531,916</u> |

The following table presents revenue disaggregated by product type:

| | 2023 | 2022 |
|-----------------------|----------------------|----------------------|
| Services | \$ 30,585,001 | \$ 27,600,924 |
| SaaS | 1,708,935 | 1,304,707 |
| Software licenses | 3,065,833 | 852,983 |
| Professional services | 5,198,419 | 4,714,657 |
| Other | 90,641 | 58,645 |
| Total revenue | <u>\$ 40,648,829</u> | <u>\$ 34,531,916</u> |

Two customers primarily contributed more than 10% of total revenues. The largest customer represented 35% and 39% of Accounts receivable and 40% and 41% of Revenue as of and for the years ended December 31, 2023 and 2022, respectively. The second largest customer represented 17% and 18% of Accounts receivable and 35% and 38% of Revenue as of and for the years ended December 31, 2023, and 2022, respectively. None of the remaining customers individually represented 10% or more of total revenues.

Accounts Receivable, net

The table below shows the components of Accounts receivable, net.

| | 2023 | 2022 |
|-----------------------------|---------------------|---------------------|
| Billed receivables | \$ 7,053,955 | \$ 5,750,818 |
| Unbilled receivables | 898,147 | 175,750 |
| Allowance for credit losses | (126,708) | — |
| Accounts receivable, net | <u>\$ 7,825,394</u> | <u>\$ 5,926,568</u> |

Contract Assets and Contract Liabilities

Contract assets are the rights to consideration in exchange for goods or services that the Company has transferred to a customer when that right is conditional on something other than the passage of time. The

Company's contract assets comprise of unbilled receivables against revenues recognized prior to receipt of payment, and these amounts are generally billed and collected within one year. Contract assets are classified as current due to the short time period between recognition and collection and are included in Accounts receivable, net in the Consolidated Balance Sheets.

Contract liabilities are recorded for any services billed to customers and not yet recognizable if the contract period has commenced or for the amount collected from customers in advance of the contract period commencing. Contract liabilities are classified as current and are presented as Deferred revenue in the Consolidated Balance Sheets.

The Company did not have any Unbilled receivables (contract assets), or Deferred revenue (contract liabilities) reported on a net contract basis as of December 31, 2023 or 2022.

The Unbilled receivables and Deferred revenue balances were as follows as of December 31:

| | 2023 | 2022 |
|--|------------------|----------------|
| Unbilled receivables | \$ 898,147 | \$ 175,750 |
| Unbilled receivables – non-current | 1,003,168 | — |
| Total Unbilled receivables | 1,901,315 | 175,750 |
| Deferred revenue | 1,245,843 | 554,819 |
| Revenue recognized in the period from amounts included in contracts liability at the beginning of the period | \$ 554,819 | \$ 288,329 |

The changes in contract assets are primarily due to timing differences between the Company's performance of services or a sale of software licenses and the related right for consideration to become unconditional (i.e., timing of contract assets being reclassified to a receivable). Additional contracts in 2023 with multi-year performance obligations and consideration conditional based on other than the passage of time caused an increase in contract assets of a non-current nature.

Changes in contract liabilities are primarily due to the timing difference between the Company's performance of services and payments from customers. To determine revenue recognized from contract liabilities during the reporting periods, the Company allocates revenue to individual contract liability balances and applies revenue recognized during the reporting periods first to the beginning balances of contract liabilities until the revenue exceeds the balances.

The Company defers costs to fulfill its contractual obligations if those costs meet all of the following criteria: (i) the costs relate directly to the contract, (ii) the costs generate or enhance resources of the Company that will be used in satisfying performance obligations in the future, and (iii) the costs are expected to be recovered. The Company had deferred costs totaling \$158,203 and \$195,957 as of December 31, 2023 and 2022, respectively. Deferred contract costs are included in Other current assets in the Consolidated Balance Sheets and are recorded to Cost of revenue.

14. Commitments and Contingencies

The Company is subject to litigation and claims arising from time to time in the ordinary course of business. Although legal proceedings are inherently unpredictable, the Company believes that it has valid defenses with respect to any matters currently pending against the Company and intends to defend itself vigorously. The outcome of these matters, individually and in the aggregate, is not expected to have a material impact on the Company's consolidated financial statements.

15. Benefit Plans

The Company maintains a defined contribution 401(k) plan (the “Plan”) for all employees who are over the age of 21 and are not located in Puerto Rico and are not independent contractors, seasonal employees, or interns. Participants may make voluntary contributions up to the maximum amount allowable by law. The Company contributes up to 6% of a participant’s eligible compensation and additional discretionary matching contributions may be made. Company contributions generally vest to the participants immediately (subject to certain Internal Revenue Code requirements). The Company recorded contributions to the Plan of \$904,331 and \$774,809 for the years ended December 31, 2023 and 2022, respectively, and are included in Selling, general and administrative expense in the Consolidated Statements of Operations.

16. Related Party Transactions

The Company owed the majority investor \$10,954,948 (Note 9, Debt), of which \$604,948 was accrued interest, and \$2,868,684, of which \$18,684 was accrued interest, as of December 31, 2023 and 2022, respectively.

The Company’s Original Loan Agreement was guaranteed by the majority investor. The New Credit Agreement in 2022 is also guaranteed by the majority investor (Note 9, Debt).

The Company entered into a Consulting Agreement on October 30, 2020 with the majority investor that requires payment of (1) a minimum consulting fees of \$600,000 per year up to \$2,000,000 (fees are pro-rated for time of ownership), and (2) a transaction consulting fee of \$700,000. The Company recognized \$600,000 of consulting fees in Selling, general and administrative expense in the Consolidated Statements of Operations for both years ended December 31, 2023 and 2022.

17. Merger Agreement

On November 4, 2023, the Company entered into an agreement and plan of mergers (the “Merger Agreement”) with BigBear.AI Holdings (“BBAI”), pursuant to which Pangiam Intermediate Holdings LLC, a subsidiary of the Company, will merge with a subsidiary of BBAI and become a wholly owned subsidiary of BBAI.

The consideration to be received consists of shares of BBAI common stock. The number of shares issued will be based off an agreed enterprise value of \$70 million and a price per share of BBAI common stock of \$1.3439 which represents the 20-day VWAP for Common Stock ending on the trading day immediately prior to the date of the Merger Agreement. The purchase price is subject to customary adjustments for indebtedness, cash, working capital, and transaction expenses. Initially \$3.5 million of shares of BBAI common stock will be held back at the time of the closing of the Mergers to cover any post-Closing adjustments to the Purchase Price.

The closing of the Merger is subject to customary closing conditions, including approval by the holders of a majority of the BBAI’s shareholders and receipt of regulatory approval. The Merger Agreement contains termination rights for the Company and BBAI, including in the event that the Merger is not consummated by August 4, 2024. Each party may also terminate the Merger Agreement if the other party breaches its representations, warranties or covenants in a manner that would lead to the failure of a condition, subject to a 30-day cure period.

18. Subsequent Events

In preparing these consolidated financial statements, the Company evaluated events and transactions for potential recognition or disclosure through March 26, 2024, the date on which the consolidated financial statements were available to be issued.

The Company drew \$3,500,000 on January 4, 2024 from the New Credit Agreement, a credit facility of the majority investor, to fund operations prior to the closing of the Merger Agreement.

Refer to Note 2 with regards to the formation of PG Finance, issuance of Class A Preferred Units and payoff of the outstanding debt under the New Credit Agreement and related party promissory notes during February 2024.

Effective February 29, 2024, the Company completed the merger with BBAI, pursuant to the Merger Agreement. The Company received a total of 61,838,072 shares of BBAI common stock. \$3,500,000 of shares of BBAI common stock was held back at the time of the closing of the merger to cover post-closing adjustments to the purchase price. BBAI may issue up to \$7,000,000 of shares of its common stock (based on the 20-day volume-weighted average price for the common stock ending on the trading day immediately prior to the settlement date) upon the final determination of any post-closing adjustments to the purchase price. In connection with the closing of the merger, the Company entered into the Joinder & Second Amendment to Amended & Restated Investor Rights Agreement with BBAI, BBAI Ultimate Holdings, LLC, AE BBAI Aggregator, LP and the other parties thereto. The Company is entitled to the same registration rights offered to other BBAI stockholders that were party to the Amended and Restated Investors Rights Agreement between BBAI and certain of its stockholders.

Unaudited Pro Forma Condensed Combined Financial Information

Introduction

Effective as of February 29, 2024 (“Closing Date”), BigBear.ai Holdings, Inc. (“BigBear.ai” or the “Company”) entered into an agreement and plan of mergers (the “Merger Agreement”) with Pangiam Merger Sub, Inc., a Delaware corporation and a direct wholly-owned subsidiary of the Company (“Merger Sub”), Pangiam Purchaser, LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of the Company (“Pangiam Purchaser”), Pangiam Ultimate Holdings, LLC, a Delaware limited liability company (“Pangiam” the “Seller”), and Pangiam Intermediate Holdings, LLC, a Delaware limited liability company (“Pangiam Intermediate”), pursuant to which, among other matters, (i) Merger Sub merged with and into Pangiam Intermediate, with Merger Sub ceasing to exist and Pangiam Intermediate surviving as a wholly-owned subsidiary of the Company (the “First Merger”), and (ii) immediately following the First Merger, Pangiam Intermediate merged with and into Pangiam Purchaser, with Pangiam Intermediate ceasing to exist and Pangiam Purchaser continuing as a wholly-owned subsidiary of the Company (the “Second Merger”, together with the First Merger, the “Merger”). AE Industrial Partners, LP (“AEIP”) and certain of its affiliates beneficially own a majority of both BigBear.ai and the Seller, but management has determined that the Merger is not a common control transaction.

The unaudited pro forma condensed combined financial information, which is derived from BigBear.ai’s historical consolidated financial statements as included in the filing on Form 10-K, for the year ended December 31, 2023, which are incorporated by reference, and Pangiam’s historical consolidated financial statements as included within the 8-K is presented as follows:

- The unaudited pro forma condensed combined balance sheet as of December 31, 2023, was prepared based on (i) consolidated balance sheet of BigBear.ai as of December 31, 2023, and (ii) consolidated balance sheet of Pangiam as of December 31, 2023.
- The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2023, was prepared based on (i) consolidated statement of operations of BigBear.ai for the year ended December 31, 2023, and (ii) consolidated statement of operations of Pangiam for the year ended December 31, 2023.

Unaudited pro forma condensed combined financial information were adjusted to give pro forma effect to events which are necessary to account for the Merger, in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The unaudited pro forma adjustments are based upon available information and certain assumptions that management believes are reasonable under the circumstances.

The Merger was treated as a business combination under Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations* (“ASC 805”), with BigBear.ai as the accounting acquirer and Pangiam as the accounting acquiree for accounting purposes in accordance with ASC 805. Under this method of accounting, the total consideration was allocated to Pangiam assets acquired and liabilities assumed based upon their estimated fair values at the Merger closing date. The process of valuing the net assets of Pangiam at the Merger closing date, as well as evaluating accounting policies for conformity, is preliminary. Any differences between the fair value of the consideration transferred and the fair value of the assets acquired, and liabilities assumed was recorded as goodwill. Accordingly, the purchase price allocation reflected in this unaudited pro forma condensed combined financial information is preliminary and represents the best estimate of fair value and is subject to revision.

As a result of the foregoing, the unaudited pro forma condensed combined financial information is based on the preliminary information available and management’s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed.

The unaudited pro forma condensed combined financial information and related notes are provided for illustrative purposes only and do not purport to represent what the combined company’s actual results of operations or financial position would have been had the Merger been completed on the dates indicated, nor are they necessarily indicative of the combined company’s future results of operations or financial position for any future period. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein.

The following unaudited pro forma condensed combined financial information gives effect to the Merger, which includes adjustments for the following:

- Certain reclassification to conform Pangiam historical financial statement presentation to BigBear's presentation;
- Application of the acquisition method of accounting under the provisions of ASC 805 and to reflect consideration of \$211.3 million; and
- Non-recurring transaction costs in connection with the Merger.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2023
(USD in thousands)

| | BigBear.ai Holdings, Inc. (Historical) | Pangiam Ultimate Holding, LLC (After Reclassifications) (Note 2) | Transaction Accounting Adjustments (Note 3) | Notes | Pro forma Combined for Transaction Accounting Adjustments |
|---|--|---|--|-------|--|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 32,557 | \$ 2,156 | (1,416) | E | \$ 33,297 |
| Accounts receivable, net | 21,949 | 7,825 | — | | 29,774 |
| Contract assets | 4,822 | — | — | | 4,822 |
| Prepaid expenses and other current assets | 4,449 | 416 | — | | 4,865 |
| Total Current assets | 63,777 | 10,397 | (1,416) | | 72,758 |
| Non-current assets | | | | | |
| Property and equipment, net | 997 | 657 | — | | 1,654 |
| Goodwill | 48,683 | 14,441 | 211,276 | A | 221,842 |
| | | | 4,357 | B | |
| | | | (56,000) | C | |
| | | | (915) | D | |
| Intangible assets, net | 82,040 | 43,457 | (4,357) | B | 121,140 |
| Right-of-use assets | 4,041 | 5,807 | — | | 9,848 |
| Deferred tax assets | — | — | 915 | D | 915 |
| Other non-current assets | 372 | 1,777 | — | | 2,149 |
| Total Assets | \$ 199,910 | \$ 76,536 | \$ 153,860 | | \$ 430,306 |
| Liabilities and stockholders' deficit | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 11,038 | \$ 4,275 | — | | \$ 15,313 |
| Short term debt, including current portion of long-term debt | 1,229 | — | — | | 1,229 |
| Accrued liabilities | 16,233 | 15,649 | (8,021) | | 23,861 |
| Loan payable | — | 65,699 | (65,699) | F | — |
| Contract liabilities | 879 | — | — | | 879 |
| Current portion of long-term lease liability | 779 | 1,075 | — | | 1,854 |
| Derivative liabilities | 37,862 | — | — | | 37,862 |
| Other current liabilities | 602 | 1,246 | 3,500 | A | 5,348 |
| Total Current liabilities | 68,622 | 87,944 | (70,220) | | 86,346 |
| Non-Current liabilities | | | | | |

Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2023
(USD in thousands)

| | BigBear.ai Holdings, Inc. (Historical) | Pangiam Ultimate Holding, LLC (After Reclassifications) (Note 2) | Transaction Accounting Adjustments (Note 3) | Notes | Pro forma Combined for Transaction Accounting Adjustments |
|--|--|---|--|-------|--|
| Long-term debt, net | 194,273 | — | — | | 194,273 |
| Due to related party | — | 10,955 | (10,955) | F | — |
| Long-term lease liability | 4,313 | 6,168 | — | | 10,481 |
| Deferred tax liabilities | 37 | 144 | — | | 181 |
| Total Liabilities | 267,245 | 105,211 | (81,175) | | 291,281 |
| Commitments and contingencies | | | | | |
| Stockholders' deficit | | | | | |
| Common stock, par value \$.0001 | 17 | — | 6 | A | 23 |
| Additional paid-in capital | 303,428 | 66,032 | 207,770 | A | 511,198 |
| | | | (150,707) | C | |
| | | | 84,675 | F | |
| Treasury stocks, at cost | (57,350) | — | — | | (57,350) |
| Accumulated deficit | (313,430) | (94,707) | 94,707 | C | (314,846) |
| | | | (1,416) | E | |
| Total Stockholders' deficit | (67,335) | (28,675) | 235,035 | | 139,025 |
| Total liabilities and stockholders' deficit | \$ 199,910 | \$ 76,536 | \$ 153,860 | | \$ 430,306 |

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

Unaudited Pro Forma Condensed Combined Statement of Operations
For the year ended December 31, 2023
(USD in thousands, except share and per share data)

| | BigBear.ai Holdings, Inc. (Historical) | Pangiam Ultimate Holding, LLC (After Reclassifications) (Note 2) | Transaction Accounting Adjustments (Note 3) | Notes | Pro Forma Combined for Transaction Accounting Adjustments |
|---|--|---|--|-------|---|
| Revenue | \$ 155,164 | \$ 40,649 | — | | \$ 195,813 |
| Cost of revenues | 114,563 | 27,669 | 2,037 | AA | 144,269 |
| Gross Margin | 40,601 | 12,980 | (2,037) | | 51,544 |
| Operating expenses | | | | | |
| Selling, general and administrative | 71,057 | 19,471 | 103 | AA | 90,631 |
| Research and development | 5,035 | 9,820 | — | | 14,855 |
| Restructuring charges | 822 | — | — | | 822 |
| Transaction expenses | 2,721 | 3,784 | 1,416 | CC | 7,921 |
| Operating loss | (39,034) | (20,095) | (3,556) | | (62,685) |
| Interest expenses | 14,200 | 6,451 | (6,451) | DD | 14,200 |
| Net increase (decrease) in fair value of derivatives | 7,424 | — | — | | 7,424 |
| Other (income) expenses | (393) | — | — | | (393) |
| Loss before taxes | (60,265) | (26,546) | 2,895 | | (83,916) |
| Income tax expense (benefit) | 101 | 164 | 608 | BB | 873 |
| Net loss | \$ (60,366) | \$ (26,710) | \$ 2,287 | | \$ (84,789) |
| Weighted- average shares outstanding | 149,234,917 | | 61,838,072 | | 211,072,989 |
| Earnings (loss) per share | | | — | | |
| Basic and diluted | \$ (0.40) | | — | | \$ (0.40) |

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

Note 1. Notes To Unaudited Pro Forma Condensed Combined Financial Information**Basis of Presentation**

The unaudited pro forma condensed combined financial information and related notes are prepared in accordance with Article 11 of Regulation S-X, Pro Forma Financial Information.

Both BigBear.ai and Pangiam historical financial statements were prepared in accordance with US GAAP and presented in U.S. dollars.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting in accordance with ASC 805, with BigBear.ai assumed as the accounting acquirer and based on the historical consolidated financial statements of BigBear.ai and Pangiam. Under ASC 805, assets acquired, and liabilities assumed in a business combination are recognized and measured at their assumed merger closing date fair value, while transaction costs associated with a business combination are expensed as incurred. The excess of merger consideration over the fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill.

The unaudited pro forma condensed combined balance sheet is presented as if the Merger had occurred on December 31, 2023, and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2023, give effect to the Merger as if it occurred on January 1, 2023.

The unaudited pro forma condensed combined financial information does not reflect any anticipated synergies or dis-synergies, operating efficiencies or cost savings that may result from the Transaction and integration costs that may be incurred. The pro forma adjustments represent BigBear.ai best estimates and are based upon currently available information and certain assumptions that BigBear.ai believes are reasonable under the circumstances. BigBear.ai is not aware of any material transactions between BigBear.ai and Pangiam during the period presented. Accordingly, adjustments to eliminate transactions between BigBear.ai and Pangiam have not been reflected in the unaudited pro forma condensed consolidated financial information.

Note 2. Reclassification Adjustments

During the preparation of this unaudited pro forma condensed combined financial information, management performed a preliminary analysis of Pangiam's financial information to identify differences in accounting policies compared to those of BigBear.ai, and differences in financial statement presentation compared to the presentation of BigBear.ai. At the time of preparing the unaudited pro forma condensed combined financial information, other than the adjustments described herein, BigBear.ai is not aware of any other material differences.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2023,
(in thousands)

| BigBear.ai Holdings, Inc. (Historical) | Pangiam Ultimate Holding, LLC (Historical) | Historical | Reclassification Adjustments | Notes | Pangiam Ultimate Holding, LLC (After Reclassification) |
|---|---|----------------|---------------------------------|-------|--|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | | — | 2,156 | (a) | 2,156 |
| | Cash | 1,039 | (1,039) | (a) | — |
| | Restricted cash | 1,117 | (1,117) | (a) | — |
| Accounts receivable, less allowance for credit losses | Accounts receivable, less allowance for credit losses | 7,825 | | | 7,825 |
| Contract assets | | — | | | — |
| Prepaid expenses and other current assets | | — | 416 | (b) | 416 |
| | Income tax receivable | 104 | (104) | (b) | — |
| | Other current assets | 312 | (312) | (b) | — |
| Total Current assets | | 10,397 | — | | 10,397 |
| Non-current assets | | | | | |
| Property and equipment, net | Property & equipment, net | 657 | | | 657 |
| Goodwill | Goodwill | 14,441 | | | 14,441 |
| Intangible assets, net | | — | 43,457 | (c) | 43,457 |
| | veriScan software, net | 7,664 | (7,664) | (c) | — |
| | Customer relationships, net | 32,491 | (32,491) | (c) | — |
| | Other intangible assets, net | 3,302 | (3,302) | (c) | — |
| Right-of-use assets | Right-of-use assets, net | 5,807 | | | 5,807 |
| Deferred tax assets | | — | | | — |
| Other non-current assets | Other non-current assets | 1,777 | | | 1,777 |
| Total Assets | | 76,536 | — | | 76,536 |
| Liabilities & stockholder's deficit | | | | | |
| Current liabilities | | | | | |
| Accounts payable | Accounts payable | 4,275 | | | 4,275 |
| Short term debt, including current portion of long-term debt | | — | | | — |
| Accrued liabilities | | — | 7,628 | (d) | 7,628 |
| | Accrued compensation | 4,472 | (4,472) | (d) | — |
| | Other accrued expenses | 3,156 | (3,156) | (d) | — |
| | | | 8,021 | (e) | 8,021 |
| | Loan payable and accrued interest | 73,720 | (73,720) | (e) | — |
| | Loan payable | | 65,699 | (e) | 65,699 |
| Contract liabilities | | — | | | — |
| Current portion of long-term lease liability | | — | 1,075 | (f) | 1,075 |
| | Operating lease liabilities, current | 1,075 | (1,075) | (f) | — |
| Derivative liabilities | | — | | | — |
| Other current liabilities | | — | 1,246 | (g) | 1,246 |
| | Deferred revenue | 1,246 | (1,246) | (g) | — |
| Total Current liabilities | | 87,944 | — | | 87,944 |
| Non-Current liabilities | | | | | |
| Long-term debt, net | | — | | | — |
| | Due to related party | 10,955 | | | 10,955 |
| Long-term lease liability | | — | 6,168 | (h) | 6,168 |
| | Operating lease liabilities, non-current | 6,168 | (6,168) | (h) | — |
| Deferred tax liabilities | Deferred tax liability, net | 144 | | | 144 |
| Total Liabilities | | 105,211 | — | | 105,211 |

| Commitments and contingencies | | | | | |
|--|--------------------------------|-----------------|------|-----|-----------------|
| Stockholder's deficit: | | | | | |
| Common stock, par value | | — | | | — |
| Additional paid-in capital | Capital Contribution | 66,032 | | | 66,032 |
| Treasury stocks, at cost | | — | | | — |
| Accumulated deficit | Accumulated Deficit | (94,728) | 21 | (i) | (94,707) |
| | Accumulated comprehensive loss | 21 | (21) | (i) | — |
| Total Stockholders' deficit | | (28,675) | — | | (28,675) |
| Total liabilities and stockholder's deficit | | 76,536 | | | 76,536 |

- (a) Reclassification of cash and restricted cash to cash and cash equivalents.
- (b) Reclassification of income tax receivable & other current assets to prepaid expenses and other current assets.
- (c) Reclassification of veriScan software, customer relationship and other intangible assets to intangible assets.
- (d) Reclassification of accrued compensation and other accrued expenses to accrued liabilities.
- (e) Reclassification of balance related to accrued interest included under the line item "Loan payable and accrued interest" to accrued liabilities.
- (f) Reclassification of operating lease liabilities, current to current portion of long-term lease liability.
- (g) Reclassification of deferred revenue to other current liabilities.
- (h) Reclassification of operating lease liabilities, non-current to long-term lease liability.
- (i) Reclassification of accumulated comprehensive loss to accumulated deficit.

Unaudited Pro Forma Condensed Combined Statements of Operations
For the year ended December 31, 2023,
(in thousands, except per share amounts)

| BigBear.ai Holdings, Inc. (Historical) | Pangiam Ultimate Holding, LLC (Historical) | Historical | Reclassification Adjustments | Notes | Pangiam Ultimate Holding, LLC (After Reclassification) |
|---|---|-------------------|---|--------------|---|
| Revenue | Revenue | 40,649 | | | 40,649 |
| Cost of revenues | Cost of revenue | 27,669 | | | 27,669 |
| Gross margin | | 12,980 | — | | 12,980 |
| Operating expenses: | | | | | |
| Selling, general and administrative | Selling, general and administrative | 17,056 | 2,415 | (a) | 19,471 |
| | Depreciation and amortization | 2,415 | (2,415) | (a) | — |
| Research and development | Research and development | 9,820 | | | 9,820 |
| Restructuring charges | | — | | | — |
| Transaction expenses | Transaction expenses | 3,784 | — | | 3,784 |
| Goodwill impairment | | | | | |
| Operating loss | | (20,095) | — | | (20,095) |
| Interest expenses | Interest expenses, net | 6,451 | | | 6,451 |
| Net increase (decrease) in fair value of derivatives | | — | | | — |
| Other (income) expenses | | — | | | — |
| Loss before taxes | | (26,546) | | — | (26,546) |
| Income tax expense (benefit) | Income tax (expense) benefit | 164 | | | 164 |
| Net loss | | (26,710) | | — | (26,710) |

(a) Reclassification of depreciation and amortization to selling, general and administrative.

Note 3. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

A. The Merger will be accounted for using the acquisition method of accounting in accordance with ASC 805, which requires, among other things, that the assets acquired, and liabilities assumed be recognized at their Merger closing date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired, if any, recorded as goodwill. The accounting for the Merger is based on currently available information and is considered preliminary. The final accounting for the Merger may differ materially from that presented in this unaudited pro forma condensed combined financial information.

The estimated fair value of consideration transferred is based on the closing BigBear.ai common stock price per share as of February 29, 2024. The following table summarizes the computation of the consideration transferred to acquire Pangiam:

| <i>(In thousands, except share count and per share data)</i> | |
|---|-------------------|
| Shares issued to Pangiam ⁽¹⁾ | 61,838,072 |
| BigBear.ai common stock price ⁽²⁾ | \$ 3.36 |
| Equity portion of consideration | 207,776 |
| Add: Purchase price adjustment holdback amount ⁽³⁾ | 3,500 |
| Fair value of consideration transferred | \$ 211,276 |

- (1) BigBear.ai shares issued for Pangiam's common stock outstanding as defined in the Merger Agreement.
- (2) BigBear.ai common stock price per share as of Merger Closing date.
- (3) Represents the purchase price adjustment holdback amount for any potential differences between the estimated and final amount of cash balance, working capital and seller transaction costs ("Holdback Amount"). The Holdback Amount is presented as "other current liabilities" by BigBear.ai. The Holdback Amount will be settled in Parent shares and the number of share is calculated based on the volume weighted average price for the Parent Shares over the 20 trading days ending on the Merger closing date.

The preliminary allocation of the purchase price consideration is as follows:

| <i>(In thousands)</i> | Fair value |
|---|-------------------|
| Cash & cash equivalents | \$ 2,156 |
| Account receivable, net | 7,825 |
| Prepaid expenses and other current assets | 416 |
| Property & equipment, net | 657 |
| Intangibles assets, net | 39,100 |
| Right-of-use assets, net | 5,807 |
| Other non-current assets | 1,777 |
| Deferred tax assets, net | 915 |
| Total assets | 58,653 |

| | |
|--|------------------|
| Accounts payable | 4,275 |
| Accrued liabilities | 7,628 |
| Other current liabilities | 1,246 |
| Current portion of long-term lease liability | 1,075 |
| Long-term lease liability | 6,168 |
| Deferred tax liability, net | 144 |
| Net assets acquired | 38,117 |
| Goodwill | 173,159 |
| Fair value of consideration transferred | \$211,276 |

The preliminary purchase accounting was based on a benchmarking analysis of similar transactions in the industry to identify value allocations of transaction considerations to assets acquired and liabilities assumed including intangible assets and step-up in the value of property and equipment. The pro forma adjustments reflecting the consummation of the Merger are based on certain currently available information and certain assumptions and methodologies that management believes are reasonable under the circumstances. The pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments, and it is possible the difference may be material. The Company believes that its assumptions and methodologies provide a reasonable basis for presenting all the significant effects of the Merger based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The final Merger consideration allocation may be materially different than that reflected in the preliminary estimated Merger consideration allocation presented herein. Any increase or decrease in fair values of the net assets as compared with the unaudited condensed combined consolidated pro forma financial information may change the amount of the total Merger consideration allocated to goodwill and other assets and liabilities and may impact the combined company statements of operations due to adjustments in the depreciation and amortization of the identifiable intangible assets.

B. Reflects the estimated fair value adjustment to the identifiable intangible assets acquired in the Merger. The fair value of intangible assets is subject to change.

The general categories of the acquired identified intangible assets are expected to be the following:

| <i>(In thousands)</i> | Fair value |
|---|-------------------|
| Technology and software | \$ 19,600 |
| Customer relationships | 17,100 |
| Dataset | 2,400 |
| Total identifiable intangible assets | \$ 39,100 |

C. Reflects the adjustment for elimination of Pangiam historical equity and expected contribution from AEIP for the repayment of existing Pangiam debt as outlined in F.

D. Reflects estimated deferred taxes related to the purchase price allocation and income tax impact effect related to the pro forma adjustments of \$0.9 million. Tax-related adjustments are based upon a statutory tax rate of 21%

E. Reflects one-time estimated nonrecurring transaction costs of \$1.4 million expected to be incurred by BigBear.ai, after December 31, 2023, and prior to the closing of the transaction.

F. Reflects the repayment of existing debt and accrued paid in kind interest included of Pangiam for the year ended December 31, 2023. The loan payable of \$73.7 million and amount due to related party of \$10.9 million which was settled by AEIP, therefore is reflected as additional contribution by AEIP.

Note 4. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations

AA. Represents the pro forma adjustment to record amortization expense of \$2.1 million, for the year ended December 31, 2023, respectively, based on the fair value of identified intangible assets less historical amortization expense for the periods associated with the historical intangible assets.

| <i>(In thousands except useful lives)</i> | Useful Life (Average) | Fair Value | Amortization Expense for the Year December 31, 2023 |
|--|------------------------------|-------------------|--|
| Technology and software | 6 | 19,600 | 3,267 |
| Customer relationships | 9 | 17,100 | 1,900 |
| Dataset | 5 | 2,400 | 480 |
| Total identifiable intangible assets | | 39,100 | 5,647 |
| Less: Historical amortization expense | | | 3,507 |
| Pro forma adjustment for incremental amortization expense | | | 2,140 |

BB. Reflects estimated income tax impact effect related to the pre-tax pro forma adjustments to the statement of operations. The tax-related adjustments are based on an estimated tax rate of 21%.

CC. Reflects nonrecurring transaction-related expenses of \$1.4 million that are estimated to be incurred by BigBear.ai, subsequent to the year ended December 31, 2023. These nonrecurring expenses are not anticipated to affect the unaudited pro forma condensed combined statement of operations beyond twelve months after the transaction date.

DD. Reflects the reversal of interest expenses on existing debt for the year ended December 31, 2023, which was settled as documented in F.

Note 5. Earnings Per Share

The following tables set forth the computation of pro forma basic and diluted earnings (loss) per share for the year ended December 31, 2023.

| <i>(In thousands, except share and per share data)</i> | For the year ended December 31, 2023 |
|--|---|
| Numerator: | |
| Pro forma net loss attributable to common stockholders | (84,789) |
| Denominator: | |
| Historical weighted average common shares outstanding- basic and diluted | 149,234,917 |
| Pro forma adjustment for shares issued | 61,838,072 |
| Weighted average common share outstanding—basic and diluted | 211,072,989 |
| Pro forma net income per share: | |
| Basic and diluted | \$ (0.40) |