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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

OR

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

For the transition period from ______ to ______

Commission file number 001-40031

BigBear.ai Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**85-4164597**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6811 Benjamin Franklin Drive, Suite 200, Columbia, MD	**21046**
(Address of Principal Executive Offices)	(Zip Code)

(410) 312-0885

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $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: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

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

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

There were 142,888,068 shares of our common stock, $0.0001 par value per share, outstanding as of May 5, 2023.

BIGBEAR.AI HOLDINGS, INC.
Quarterly Report on Form 10-Q
March 31, 2023

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

BIGBEAR.AI HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited; in thousands, except share and per share data)

	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 21,827	$ 12,632
Accounts receivable, less allowance for doubtful accounts of $980 as of March 31, 2023 and $98 as of December 31, 2022	32,678	30,091
Contract assets	2,427	1,312
Prepaid expenses and other current assets	8,775	10,300
Total current assets	**65,707**	**54,335**
Non-current assets:		
Property and equipment, net	1,308	1,433
Goodwill	48,683	48,683
Intangible assets, net	83,816	85,685
Right-of-use assets	4,491	4,638
Deferred tax assets	51	51
Other non-current assets	509	483
Total assets	**$ 204,565**	**$ 195,308**
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 10,508	$ 15,422
Short-term debt, including current portion of long-term debt	1,296	2,059
Accrued liabilities	18,271	13,366
Contract liabilities	2,347	2,022
Current portion of long-term lease liability	810	806
Derivative liabilities	25,469	—
Other current liabilities	2,136	2,085
Total current liabilities	**60,837**	**35,760**
Non-current liabilities:		
Long-term debt, net	192,807	192,318
Long-term lease liability	4,906	5,092
Deferred tax liabilities	54	—
Other non-current liabilities	—	10
Total liabilities	**258,604**	**233,180**
Commitments and contingencies (Note K)		
Stockholders' deficit:		
Common stock, par value $0.0001; 500,000,000 shares authorized and 141,823,207 shares issued at March 31, 2023 and 127,022,363 at December 31, 2022	16	14
Additional paid-in capital	282,573	272,528
Treasury stock, at cost 9,952,803 shares at March 31, 2023 and December 31, 2022	(57,350)	(57,350)
Accumulated deficit	(279,278)	(253,064)
Total stockholders' deficit	**(54,039)**	**(37,872)**
Total liabilities and stockholders' deficit	**$ 204,565**	**$ 195,308**

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

BIGBEAR.AI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(*unaudited; in thousands, except share and per share data*)

	Three Months Ended March 31,	
	2023	**2022**
Revenues	$ 42,154	$ 36,390
Cost of revenues	31,941	26,523
Gross margin	**10,213**	**9,867**
Operating expenses:		
Selling, general and administrative	20,362	22,020
Research and development	1,128	2,874
Restructuring charges	755	—
Transaction expenses	—	1,399
Operating loss	**(12,032)**	**(16,426)**
Interest expense	3,556	3,555
Net increase (decrease) in fair value of derivatives	10,567	(1,263)
Other expense	—	30
Loss before taxes	**(26,155)**	**(18,748)**
Income tax expense	59	77
Net loss	**$ (26,214)**	**$ (18,825)**
Basic net loss per share	$ (0.19)	$ (0.14)
Diluted net loss per share	$ (0.19)	$ (0.14)
Weighted-average shares outstanding:		
Basic	138,548,599	131,882,556
Diluted	138,548,599	131,882,556

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

BIGBEAR.AI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited; in thousands, except share data)

	Three Months Ended March 31, 2023					
	Common Stock		Additional	Treasury	Accumulated	Total stockholders'
	Shares	Amount	paid in capital	stock	deficit	deficit
As of December 31, 2022	127,022,363	$ 14	$ 272,528	$ (57,350)	$ (253,064)	$ (37,872)
Net loss	—	—	—	—	(26,214)	(26,214)
Equity-based compensation expense	—	—	3,805	—	—	3,805
Issuance of Private Placement shares	13,888,889	2	7,079	—	—	7,081
Issuance of shares for equity-based compensation awards, net	911,861	—	(839)	—	—	(839)
Issuance of shares for exercised convertible notes	94	—	—	—	—	—
As of March 31, 2023	**141,823,207**	**$ 16**	**$ 282,573**	**$ (57,350)**	**$ (279,278)**	**$ (54,039)**

	Three Months Ended March 31, 2022					
	Common Stock		Additional	Treasury	Accumulated	Total stockholders'
	Shares	Amount	paid in capital	stock	deficit	equity
As of December 31, 2021	135,566,227	$ 14	$ 253,744	$ —	$ (131,390)	$ 122,368
Net loss	—	—	—	—	(18,825)	(18,825)
Equity-based compensation expense	—	—	3,858	—	—	3,858
Repurchase of shares as a result of Forward Share Purchase Agreements	(9,952,803)	—	—	(57,350)	—	(57,350)
As of March 31, 2022	**125,613,424**	**$ 14**	**$ 257,602**	**$ (57,350)**	**$ (150,215)**	**$ 50,051**

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

BIGBEAR.AI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(*unaudited; in thousands*)

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	$ (26,214)	$ (18,825)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	1,986	1,772
Amortization of debt issuance costs	500	523
Equity-based compensation expense	3,805	3,858
Non-cash lease expense	(35)	—
Provision for doubtful accounts	882	—
Deferred income tax expense	54	174
Net increase (decrease) in fair value of derivatives	10,567	(1,263)
Loss on sale of property and equipment	8	—
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,469)	1,981
Increase in contract assets	(1,115)	(2,306)
Decrease in prepaid expenses and other assets	1,488	432
(Decrease) increase in accounts payable	(4,914)	1,150
Increase in accrued liabilities	4,066	6,307
Increase (decrease) in contract liabilities	325	(1,415)
Increase in other liabilities	49	83
Net cash used in operating activities	**(12,017)**	**(7,529)**
Cash flows from investing activities:		
Purchases of property and equipment	—	(359)
Net cash used in investing activities	**—**	**(359)**
Cash flows from financing activities:		
Proceeds from issuance of Private Placement shares, net	21,975	—
Repurchase of shares as a result of forward share purchase agreements	—	(100,896)
Repayment of short-term borrowings	(763)	(1,159)
Net cash provided by (used in) financing activities	**21,212**	**(102,055)**
Net increase (decrease) in cash and cash equivalents and restricted cash	9,195	(109,943)
Cash and cash equivalents and restricted cash at the beginning of period	12,632	169,921
Cash and cash equivalents and restricted cash at the end of the period	**$ 21,827**	**$ 59,978**

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

Note A—Description of the Business

BigBear.ai Holdings, Inc.'s ("*BigBear.ai*", "*BigBear.ai Holdings*", or the "*Company*") mission is to help deliver clarity for clients as they face their most complex decisions. BigBear.ai's artificial intelligence ("*AI*")-powered decision intelligence solutions are leveraged in three primary markets—global supply chains & logistics, autonomous systems, and cybersecurity. The Company's customers, including federal defense and intelligence agencies, manufacturers, third party logistics providers, retailers, healthcare, and life sciences organizations, rely on BigBear.ai's solutions to empower leaders to decide on the best possible course of action by creating order from complex data, identifying blind spots, and building predictive outcomes. Unless otherwise indicated, references to "we", "us" and "our" refer collectively to BigBear.ai Holdings, Inc. and its consolidated subsidiaries.

Note B—Summary of Significant Accounting Policies

Basis of Presentation

We prepared these accompanying unaudited consolidated financial statements in accordance with U.S. generally accepted accounting principles ('*GAAP"*) for interim financial information, the instructions to Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all information and notes required by GAAP for complete financial statements. Amounts presented within the consolidated financial statements and accompanying notes are presented in thousands of U.S. dollars unless stated otherwise, except for percentages, units, shares, per unit, and per share amounts.

In the opinion of management, these consolidated financial statements reflect all adjustments that are of a normal recurring nature necessary for a fair presentation of our results of operations, financial condition, and cash flows for the interim periods presented. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially from these estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, accounting for revenue and cost recognition; evaluation of goodwill; intangible assets; and other assets for impairment; income taxes; equity-based compensation; fair value measurements; and contingencies. We eliminate intercompany balances and transactions in consolidation.

The results of operations for the interim periods presented are not necessarily indicative of results to be expected for the full year or future periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022.

Segment Information

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker ("*CODM*") in deciding how to allocate resources and in assessing performance. The Company's CODM is its Chief Executive Officer.

As of December 31, 2022, the Company had two operating and reportable segments that were organized by sector: Cyber & Engineering and Analytics. During the three months ended March 31, 2023, the Company reevaluated its operating and reportable segments under Financial Accounting Standards Board ("*FASB*") Accounting Standards Codification ("*ASC*") 280 - *Segment Reporting*, following an organizational and legal entity restructuring, which allowed the Company to align its operations with how the business will be managed. As a result of such changes, the performance of the Company's operations are evaluated by the CODM using the consolidated financial results of the Company. As a result of this reevaluation, effective for the first quarter of fiscal year 2023, the Company determined it that it manages its operations as a single operating and reportable segment.

The single reportable segment is consistent with information used by the CODM to assess performance, make operating decisions, and allocate resources. The Company evaluates the operating performance of its one segment based upon information included in management reports.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

Emerging Growth Company

Section 102(b)(1) of the Jumpstart Our Business Startups Act of 2012 (the *"JOBS Act"*) exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

This may make comparison of the Company's financial statements with another public company that is neither an emerging growth company nor an emerging growth company that has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Recently Adopted Accounting Pronouncements

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations* ("*ASC 805*"), *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("*ASU 2021-08*"). Upon the issuance of ASU No. 2014-09, *Revenue from Contracts with Customers* ("*ASC 606*"), which provides a single comprehensive accounting model on revenue recognition for contracts with customers, stakeholders indicated that there are differing views on whether the concept of a performance obligation introduced by ASC 606 should be used to determine whether a contract liability is recognized in a business combination from revenue contracts. Before the adoption date of ASC 606, a liability for deferred revenue was generally recognized in an acquirer's financial statements if it represented a legal obligation. The amendments in ASU 2021-08 address how to determine whether a contract liability is recognized by the acquirer in a business combination. Additionally, stakeholders raised questions about how to apply ASC 805 to contracts with a customer acquired in a business. Under current practice, the timing of payment for a revenue contract may subsequently affect the amount of post-acquisition revenue recognized by the acquirer. For example, if two revenue contracts with identical performance obligations are acquired but one contract is paid upfront before the acquisition and the other contract is paid over the contract term after the acquisition, the amount of revenue recognized by the acquirer after the business combination likely would differ between the two acquired contracts. The amendments in ASU 2021-08 resolve this inconsistency by providing specific guidance on how to recognize and measure acquired contract assets and contract liabilities from revenue contracts in a business combination. The new guidance will be effective for the years beginning after December 15, 2022. The Company prospectively adopted ASU 2021-08 as of January 1, 2022.

Note C—Restructuring Charges

Upon performing a strategic review of the Company's capacity and future projections, the Company initiated restructuring actions in the third and fourth quarters of 2022, both of which were completed as of December 31, 2022. The purpose of the restructuring was to better align the organization and cost structure and improve the affordability of products and services. A liability reflecting unpaid employee separation costs of $ 1,535 is presented on the consolidated balance sheets within other current liabilities as of December 31, 2022.

During the three months ended March 31, 2023, the Company further refined its organizational structure to align with the change in its reportable and operating segments, resulting in additional employee separation costs of $755, net of tax benefits. The Company had completed this restructuring action as of March 31, 2023. A liability reflecting unpaid employee separation costs of $1,303 is presented on the consolidated balance sheets within other current liabilities as of March 31, 2023.

The table below presents the activity in restructuring charges for the three months ended March 31, 2023:

As of December 31, 2022	$	1,535
Additions		755
Settlements		(987)
As of March 31, 2023	$	1,303

(unaudited; in thousands of U.S. dollars unless stated otherwise)

Note D—Business Combinations

ProModel Acquisition

On April 7, 2022, the Company's subsidiary BigBear.ai, LLC acquired 100% of the equity interest in ProModel Corporation ("ProModel Corporation"), a leader in simulation-based predictive and prescriptive analytic software for process improvement enabling organizations to make better decisions, for approximately $16.1 million, subject to certain adjustments. This acquisition complements the Company's previous acquisition of ProModel's Government Services business, ProModel Government Solutions Inc. (*"ProModel Government Solutions"*), which closed on December 21, 2020. The acquisition was funded through a combination of cash on hand and the issuance of 649,976 shares of the Company's common stock. ProModel Corporation was aligned under the Analytics reportable operating segment prior to the Company's reevaluation of its operating and reportable segments, effective for the first quarter of fiscal year 2023.

The purchase agreement with the sellers of ProModel Corporation also stipulates that certain funds would be held in escrow (such funds, the "*Indemnity Escrow Deposit*", the "*Distribution Withholding Deposit*", and the "*Adjustment Escrow Deposit*"), for the benefit of the seller. Pursuant to and subject to the terms and conditions of the Escrow Agreement, the Adjustment Escrow Amount of $200, the Distribution Withholding Escrow Amount of $100, and the Indemnity Escrow Amount of $100 shall be held in escrow until released in accordance with the purchase agreement and the Escrow Agreement.

The following table summarizes the fair value of the consideration transferred and the estimated fair values of the major classes of assets acquired and liabilities assumed as of the acquisition date.

		April 7, 2022
Cash paid	$	8,559
Equity issued		7,501
Purchase consideration	$	16,060
Assets:		
Cash	$	4,094
Accounts receivable		743
Prepaid expenses and other current assets		1,600
Contract assets		398
Property and equipment		83
Other non-current assets		21
Intangible assets		9,300
Total assets acquired	$	16,239
Liabilities:		
Accounts payable		5
Accrued liabilities		7,752
Contract liabilities		1,555
Deferred tax liabilities		1,458
Total liabilities acquired	$	10,770
Fair value of net identifiable assets acquired		5,469
Goodwill	$	10,591

The following table summarizes the intangible assets acquired by class:

		April 7, 2022
Technology	$	3,500
Customer relationships		5,800
Total intangible assets	$	9,300

The acquired technology and customer relationship intangible assets have a weighted-average estimated useful lives of 7 years and 20 years, respectively.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

The fair value of the acquired technology was determined using the relief from royalty ("RFR") method. The fair value of the acquired customer relationships was determined using the excess earnings method.

The acquisition was accounted for as a business combination, whereby the excess of the purchase consideration over the fair value of identifiable net assets was allocated to goodwill. The goodwill reflects the potential synergies and expansion of the Company's offerings across product lines and markets complementary to its existing products and markets. For tax purposes, the goodwill related to the acquisition is deductible.

Pro Forma Financial Data (Unaudited)

The following table presents the pro forma consolidated results of operations of BigBear.ai for the three-month period ended March 31, 2022 as though the acquisition of ProModel Corporation had been completed as of January 1, 2021.

	Three Months Ended March 31, 2022
Net revenue	$ 37,635
Net loss	(19,902)

The amounts included in the pro forma information are based on the historical results and do not necessarily represent what would have occurred if all the business combinations had taken place as of January 1, 2021, nor do they represent the results that may occur in the future. Accordingly, the pro forma financial information should not be relied upon as being indicative of the results that would have been realized had the acquisition occurred as of the date indicated or that may be achieved in the future.

<u>Note E—Fair Value of Financial Instruments</u>

Cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable, short-term debt, including the current portion of long-term debt, accrued liabilities, and other current liabilities 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.

Private warrants and Private Placement ("*PIPE*") warrants are valued using a modified Black-Scholes option pricing model (*"OPM"*), which is considered to be a Level 3 fair value measurement. See Note N—Warrants for information on the Level 3 inputs used to value the private warrants and PIPE warrants.

The table below presents the financial liabilities measured at fair value on a recurring basis:

		March 31, 2023			
	Balance Sheet Caption	Level 1	Level 2	Level 3	Total
PIPE warrants	Derivative liabilities	$ —	$ —	$ 25,417	$ 25,417
Private warrants	Derivative liabilities	—	—	52	52

		December 31, 2022			
	Balance Sheet Caption	Level 1	Level 2	Level 3	Total
Private warrants	Other non-current liabilities	$ —	$ —	$ 9	$ 9

The changes in the fair value of the Level 3 liabilities are as follows:

	Level 3	
	PIPE warrants	Private warrants
December 31, 2022	$ —	$ 9
Additions	14,893	—
Changes in fair value	10,524	43
March 31, 2023	$ 25,417	$ 52

(unaudited; in thousands of U.S. dollars unless stated otherwise)

Note F—Prepaid expenses and other current assets

The table below presents details on prepaid expenses and other current assets:

	March 31, 2023	December 31, 2022
Prepaid insurance	$ 2,347	$ 3,205
Prepaid expenses	1,863	1,663
Prepaid taxes	1,823	1,827
Pre-contract costs[(1)]	2,742	3,605
Total prepaid expenses and other current assets	$ 8,775	$ 10,300

[(1)] Costs incurred to fulfill a contract in advance of the contract being awarded are included in prepaid expenses and other current assets if we determine that those costs relate directly to a contract or to an anticipated contract that we can specifically identify and contract award is probable, the costs generate or enhance resources that will be used in satisfying performance obligations, and the costs are recoverable (referred to as pre-contract costs).

Pre-contract costs that are initially capitalized in prepaid assets and other current assets are generally recognized as cost of revenues consistent with the transfer of products or services to the customer upon the receipt of the anticipated contract. All other pre-contract costs, including start-up costs, are expensed as incurred.

Note G—Accrued Liabilities

The table below presents details on accrued liabilities:

	March 31, 2023	December 31, 2022
Payroll accruals	$ 12,664	$ 11,319
Accrued interest	3,565	567
Other accrued expenses	2,042	1,480
Total accrued liabilities	$ 18,271	$ 13,366

Note H—Debt

The table below presents the Company’s debt balances:

	March 31, 2023	December 31, 2022
Convertible Notes	$ 200,000	$ 200,000
Bank of America Senior Revolver	—	—
D&O Financing Loan	1,296	2,059
Total debt	201,296	202,059
Less: unamortized issuance costs	7,193	7,682
Total debt, net	194,103	194,377
Less: current portion	1,296	2,059
Long-term debt, net	$ 192,807	$ 192,318

Convertible Notes

On December 7, 2021, the previously announced merger (*"Merger"*) with GigCapital4, Inc. (*"GigCapital4"*) was consummated and the Company issued $200.0 million of unsecured convertible notes (the *"Convertible Notes"*) to certain investors. The Convertible Notes bear interest at a rate of 6.0% per annum, payable semi-annually, and not including any interest payments that are settled with the issuance of shares, were initially convertible into 17,391,304 shares of the Company's common stock at an initial Conversion Price of $11.50. The Conversion Price is subject to adjustments. On May 29, 2022, pursuant to the Convertible Note indenture, the conversion rate applicable to the Convertible Notes was adjusted to 94.2230 (previously 86.9565) shares of common stock per $1,000 principal amount of Convertible Notes because the average of the daily volume-weighted average price of the common stock during the preceding 30 trading days was less than $10.00 (the "*Conversion Rate Reset*"). After giving effect to the Conversion Rate Reset, the Conversion Price is $10.61 and the Convertible Notes are convertible into 18,844,600 shares, not including any interest payments that are settled with the issuance of shares. The Convertible Note financing matures on December 15, 2026.

The Company may, at its election, force conversion of the Convertible Notes after December 15, 2022 and prior to October 7, 2026 if the trading price of the Company's common stock exceeds 130% of the conversion price for 20 out of the preceding 30 trading days and the 30-day average daily trading volume ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to $3.0 million for the first two years after the initial issuance of the Convertible Notes and $2.0 million thereafter. Upon such conversion, the Company will be obligated to pay all regularly scheduled interest payments, if any, due on the converted Convertible Notes on each interest payment date occurring after the conversion date for such conversion to, but excluding, the maturity date (such interest payments, an "*Interest Make-Whole Payments*"). In the event that a holder of the Convertible Notes elects to convert the Convertible Notes (a) prior to December 15, 2024, the Company will be obligated to pay an amount equal to twelve months of interest or (b) on or after December 15, 2024 but prior to December 15, 2025, any accrued and unpaid interest plus any remaining amounts that would be owed up to, but excluding, December 15, 2025. The Interest Make-Whole Payments will be payable in cash or shares of the common stock at the Company's election, as set forth in the Indenture.

Following certain corporate events that occur prior to the maturity date or if the Company exercises its mandatory conversion right in connection with such corporate events, the conversion rate will be increased in certain circumstances for a holder who elects, or has been forced, to convert its Convertible Notes in connection with such corporate events.

If a Fundamental Change (as defined in the Convertible Note indenture) occurs prior to the maturity date, holders of the Convertible Notes will have the right to require the Company to repurchase all or any portion of their Convertible Notes in principal amounts of one thousand dollars or an integral multiple thereof, at a repurchase price equal to the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date.

The Convertible Notes require the Company to meet certain financial and other covenants. As of March 31, 2023, the Company was in compliance with all covenants.

On May 29, 2022, pursuant to the conversion rate adjustment provisions in the Convertible Note indenture, the Conversion Price was adjusted to $10.61 (or 94.2230 shares of common stock per one thousand dollars of principal amount of Convertible Notes). Subsequent to the adjustment, the Convertible Notes are convertible into 18,844,600 shares, not including any interest payments that are settled with the issuance of shares.

During the three months ended March 31, 2023, Convertible Notes with a principal of $1,000 were exercised for 94 shares of the Company's common stock. As of March 31, 2023, the Company has an outstanding balance of $200.0 million related to the Convertible Notes, which is recorded on the balance sheet net of approximately $7.2 million of unamortized debt issuance costs.

Bank of America Senior Revolver

The Company is party to a senior credit agreement with Bank of America, N.A. (the *"Bank of America Credit Agreement"*), entered into on December 7, 2021 (the "*Closing Date*"), subsequently amended on November 8, 2022, providing the Company with a $25.0 million senior secured revolving credit facility (the *"Senior Revolver"*). Proceeds from the Senior Revolver will be used to fund working capital needs, capital expenditures, and other general corporate purposes. The Senior Revolver matures on December 7, 2025 (the *"Maturity Date"*).

The Senior Revolver is secured by a pledge of 100% of the equity of certain of the Company's wholly owned subsidiaries and a security interest in substantially all of the Company's tangible and intangible assets. The Senior Revolver includes borrowing capacity available for letters of credit and for borrowings on same-day notice, referred to as the "swing loans." Any issuance of letters of credit or making of a swing loan will reduce the amount available under the revolving credit facility. The Company may increase the commitments under the Senior Revolver in an aggregate amount of up to the greater of $25.0 million or 100% of consolidated adjusted EBITDA plus any additional amounts so long as certain conditions, including compliance with the applicable financial covenants for such period, in each case on a pro forma basis, are satisfied.

As of the Closing Date, borrowings under the Senior Revolver bear interest, at the Company's option, at:

(i) A Base Rate plus a Base Rate Margin of 2.00%. Base Rate is a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate of Bank of America, N.A., and (c) Bloomberg Short-Term Yield Index ("*BSBY*") Rate plus 1.00%; or

(ii) The BSBY Rate plus a BSBY Margin of 1.00%.

The Base Rate Margin and BSBY Margin became subject to adjustment based on the Company's Secured Net Leverage Ratio after March 31, 2022. The Company is also required to pay unused commitment fees and letter of credit fees under the Bank of America Credit Agreement. The Second Amendment (defined below) increased the Base Rate Margin, BSBY Margin and unused commitment fees by 0.25%.

The Bank of America Credit Agreement requires the Company to meet certain financial and other covenants. The Company was not in compliance with the Fixed Charge Coverage ratio requirement as of June 30, 2022, and as a result was unable to draw on the facility. The Company notified Bank of America N.A. of the covenant violation, and on August 9, 2022, entered into the First Amendment (the *"First Amendment"*) to the Bank of America Credit Agreement, which, among other things, waived the requirement that the Company demonstrate compliance with the minimum Fixed Charge Coverage ratio provided for in the Credit Agreement for the quarter ended June 30, 2022.

The Company was not in compliance with the Fixed Charge Coverage ratio requirement as of September 30, 2022, and as a result was unable to draw on the facility. On November 8, 2022, the Company entered into a Second Amendment to the Bank of America Credit Agreement (the "*Second Amendment*"), which modifies key terms of the Senior Revolver. As a result of the Second Amendment, funds available under the Senior Revolver are reduced to $ 25.0 million from $50.0 million, limited to a borrowing base of 90% of Eligible Prime Government Receivables and Eligible Subcontractor Government Receivables, plus 85% of Eligible Commercial Receivables. Additionally, the Second Amendment increased the Base Rate Margin, BSBY Margin and unused commitment fees by 0.25%. Following entry into the Second Amendment, the Senior Revolver no longer is subject to a minimum Fixed Charge Coverage ratio covenant. In order for the facility to become available for borrowings (the "*initial availability quarter*"), the Company must report Adjusted EBITDA of at least one dollar. Commencing on the first fiscal quarter after the initial availability quarter, the Company is required to have aggregated reported Adjusted EBITDA of at least $1 over the two preceding quarters to maintain its ability to borrow under the Senior Revolver (though the inability to satisfy such condition does not result in a default under the Senior Revolver).

Failure to meet these Adjusted EBITDA requirements is not deemed to be a default but will limit the Company's ability to make borrowings under the Senior Revolver until such time that the Company is able meet the Adjusted EBITDA thresholds as defined in the Second Amendment. The Company did not meet the Adjusted EBITDA requirement during the three months ended March 31, 2023, and is unable to draw on the Senior Revolver as of March 31, 2023.

The Second Amendment removes the requirement that the Company demonstrate compliance with the minimum Fixed Charge Coverage ratio.

Based on current forecasts, management believes that it is reasonably likely that the Company may fail to meet the minimum Adjusted EBITDA requirements of the Bank of America Credit Agreement in future periods and therefore, may be unable to draw on the facility. Management performed a cash flow analysis to identify the Company's projected approximate cash flow and liquidity needs for the next 12 months. Based on the Company's projected cash flow and liquidity needs, we believe that our cash from operating activities generated from continuing operations during the year will be adequate for the next 12 months to meet our anticipated uses of cash flow, including payroll obligations, working capital, operating lease obligations, capital expenditures and debt service costs, and it is considered unlikely that the Company would require access to draw funds on the Senior Revolver in the foreseeable future.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

As of March 31, 2023, the Company had not drawn on the Senior Revolver. Unamortized debt issuance costs of $186 as of March 31, 2023, are recorded on the consolidated balance sheets and are presented in other non-current assets. The Bank of America Credit Agreement requires the Company to deliver monthly borrowing base certificates. The Company did not deliver such monthly borrowing base certificates for the months ending December 31, 2022, January 31, 2023, February 28, 2023, and March 31, 2023. Bank of America N.A. notified the Company of the reporting violation, and on April 21, 2023, Bank of America N.A. and the Company entered into the Third Amendment (the "*Third Amendment*") to the Bank of America Credit Agreement, which, among other things, waived the requirement that the Company deliver the monthly borrowing base certificate for the months ending December 31, 2022, January 31, 2023, February 28, 2023, and March 31, 2023, and removed the reporting requirement to deliver a monthly borrowing base certificate going forward until the Company meets the Adjusted EBITDA requirements set forth above and is permitted to draw on the Senior Revolver.

D&O Financing Loan

On December 8, 2021, the Company entered into a $4,233 loan (the *"D&O Financing Loan"*) with AFCO Credit Corporation to finance the Company's directors and officers insurance premium through December 2022. The D&O Financing Loan had an interest rate of 1.50% per annum and a maturity date of December 8, 2022.

On December 8, 2022, the Company entered into a $2,059 loan (the "*2023 D&O Financing Loan*") with AFCO Credit Corporation to finance the Company's directors and officers insurance premium through December 2023. The 2023 D&O Financing Loan required an upfront payment of $1,109 and has an interest rate of 5.75% per annum and a maturity date of December 8, 2023.

Note I—Leases

The Company is obligated under operating leases for certain real estate and office equipment assets. The Company's finance leases are not material. Certain leases contained predetermined fixed escalation of minimum rents at rates ranging from 2.5% to 5.4% per annum and remaining lease terms of up to eight years, some of which include renewal options that could extend certain leases to up to an additional five years.

The following table presents supplemental information related to leases at March 31, 2023:

Weighted average remaining lease term	5.22
Weighted average discount rate	10.50 %

The table below presents the rent expense under all leases for the following periods:

	Three Months Ended March 31, 2023
Rent expense	$ 377

Rent expense for the three months ended March 31, 2023 includes $63 of short-term lease costs and $22 of variable lease costs. The Company subleases certain leases. As of March 31, 2023, the Company has subleased three of its real estate leases and recognized $39 of sublease income on the consolidated statements of operations during the three months ended March 31, 2023.

The following table presents supplemental cash flow and non-cash information related to leases:

	Three Months Ended March 31, 2023
Cash paid for amounts included in the measurement of lease liabilities - operating cash flows from leases	$ 325

(unaudited; in thousands of U.S. dollars unless stated otherwise)

As of March 31, 2023, the future annual minimum lease payments for operating leases are as follows:

Remainder of 2023	$	1,041
2024		1,257
2025		1,207
2026		1,138
2027		531
Thereafter		3,625
Total future minimum lease payments	$	8,799
Less amounts related to imputed interest		(3,083)
Present value of future minimum lease payments		5,716
Less current portion of long-term lease liability		810
Long-term lease liability	$	4,906

Note J—Income Taxes

The table below presents the effective income tax rate for the following periods:

	Three Months Ended March 31,	
	2023	2022
Effective tax rate	(0.2)%	(0.4)%

The Company was taxed as a corporation for federal, state, and local income tax purposes for the three months ended March 31, 2023 and March 31, 2022The effective tax rate for the three months ended March 31, 2023 and March 31, 2022 differs from the U.S. federal income tax rate of 21.0% primarily due to state and local income taxes, permanent differences between book and taxable income, certain discrete items, and the change in valuation allowance.

Note K—Commitments and Contingencies

Contingencies in the Normal Course of Business

Under certain contracts with the U.S. government and certain governmental entities, contract costs, including indirect costs, are subject to audit by and adjustment through negotiation with governmental representatives. Revenue is recorded in amounts expected to be realized on final settlement of any such audits.

Legal Proceedings

The Company is subject to litigation, claims, investigations and audits 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 balance sheets, consolidated statements of operations, or cash flows

Note L—Written Put Option

Immediately prior to the stockholder vote for the Merger, GigCapital4 executed a series of Forward Share Purchase Agreements (*“FPAs”*) with Highbridge Tactical Credit Master Fund. L.P. and Highbridge SPAC Opportunity Fund, L.P. (the “ *Highbridge Investors*”), Tenor Opportunity Master Fund Ltd. (“*Tenor*”), and Glazer Capital, LLC and Meteora Capital, LLC (the “*Glazer Investors*”, together with the Highbridge Investors and Tenor, the “*Investors*”). The FPAs provide that each of the Investors would not redeem their shares and instead would hold the shares for a period of up to three months following the consummation of the Merger, at which time they would have the right to sell the shares to the Company for $10.15 per share (the “*Written Put Option*”). The Investors had the right to sell shares on the open market before the end of thethree-month period provided that the share price was at least $10.00 per share. If the Investors sold any shares in the open market within the first month of thethree-month period and at a price greater than $10.05 per share, the Company would pay the Investors $0.05 per share sold.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

The following table indicates the aggregate number of shares of common stock subject to the FPAs by each Investor:

	December 6, 2021
Highbridge Investors	2,453,195
Tenor	2,499,608
Glazer Investors	5,000,000
Total shares	9,952,803

During the first quarter of 2022, the Company settled the derivative liability associated with the Written Put Option by repurchasing all9,952,803 shares of its common stock at the Investors' request. Certain of the Investors requested for their shares to be repurchased prior to the end of the three-month period at a reduced price per share. As a result, 5,000,000 shares were repurchased at $10.125 per share during the first quarter of 2022.

During the three months ended March 31, 2022, the derivative liability was remeasured to its intrinsic value at each date that the underlying shares were repurchased. The resulting gain of $1,281 was presented in net increase (decrease) in fair value of derivatives on theconsolidated statement of operations for the three months ended March 31, 2022. The intrinsic value of the Written Put Option upon settlement was $43,546 and was recognized directly in equity during the three months ended March 31, 2022.

Note M—Stockholders' Equity

Common Stock

The table below presents the details of the Company's authorized common stock as of the following periods:

	March 31, 2023	December 31, 2022
Common stock:		
Authorized shares of common stock	500,000,000	500,000,000
Common stock par value per share	$ 0.0001	$ 0.0001
Common stock outstanding at the period end	141,823,207	127,022,363

Treasury Stock

During the three months ended March 31, 2023, the Company repurchased9,952,803 shares at a cost of $57,350 to settle the Company's obligations under the FPAs. These shares are measured at cost and presented as treasury stock on the consolidated balance sheets and consolidated statements of stockholders' (deficit) equity.

Dividend Rights

Subject to applicable law and the rights, if any, of the holders of any outstanding series of the Company's preferred stock or any class or series of stock having a preference over or the right to participate with the Company's common stock with respect to the payment of dividends, dividends may be declared and paid ratably on the Company's common stock out of the assets of the Corporation that are legally available for this purpose at such times and in such amounts as the Company's Board in its discretion shall determine.

Voting Rights

Each outstanding share of the Company's common stock is entitled toone vote on all matters submitted to a vote of stockholders. Holders of shares of common stock do not have cumulative voting rights.

Conversion or Redemption Rights

The Company's common stock is neither convertible nor redeemable.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

Liquidation Rights

Upon the Company's liquidation, the holders of the Company's common stock are entitled to receive prorata the Company's assets that are legally available for distribution, after payment of all debts and other liabilities and subject to the prior rights of any holders of the Company's preferred stock then outstanding.

Preferred Stock

The table below presents the details of the Company's authorized preferred stock as of the following periods:

		March 31, 2023		December 31, 2022
Preferred stock:				
Authorized shares of preferred stock		1,000,000		1,000,000
Preferred stock par value per share	$	0.0001	$	0.0001
Preferred stock outstanding at the period end		—		—

The Company's Board may, without further action by the Company's stockholders, from time to time, direct the issuance of shares of preferred stock in series and may, at the time of issuance, determine the designations, powers, preferences, privileges and relative participating, optional or special rights as well as the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the Company's common stock. Satisfaction of any dividend preferences of outstanding shares of the Company's preferred stock would reduce the amount of funds available for the payment of dividends on shares of the Company's common stock. Upon the affirmative vote of a majority of the total number of directors then in office, the Company's Board may issue shares of the Company's preferred stock with voting and conversion rights which could adversely affect the holders of shares of the Company's common stock.

Note N—Warrants

PIPE Warrants

On January 19, 2023, the Company consummated the closing of a private placement (the "*Private Placement*") by and among the Company and Armistice Capital Master Fund Ltd (the "*Purchaser*"). At the closing of the Private Placement, the Company issued 13,888,889 shares of the Company's common stock at par value and warrants to purchase up to an additional 13,888,889 shares of common stock (the "*PIPE warrants*"). The PIPE warrants have an exercise price of $2.39 per share and may be exercisable as of July 19, 2023 until July 19, 2028. The PIPE warrants are subject to a 4.99% beneficial ownership limitation that precludes the Purchaser from exercising any portion of the PIPE warrants to the extent that, following such exercise, the Purchaser's beneficial ownership of our then outstanding common stock would exceed 4.99%.

The table below presents the value of the PIPE warrants under the Black-Scholes OPM using the following assumptions as of the following dates:

		March 31, 2023		January 19, 2023
Value of each PIPE warrant	$	1.83	$	1.22
Exercise price	$	2.39	$	2.39
Common stock price	$	2.44	$	1.87
Expected option term (years)		5.3		5.5
Expected volatility		94.60%		82.10%
Risk-free rate of return		3.60%		3.40%
Expected annual dividend yield		—%		—%

As of March 31, 2023, the PIPE warrants have a fair value of $25,417 and are presented on the consolidated balance sheets within derivative liabilities. A loss of $10,524 was recognized as a result of the change in fair value for the three months ended March 31, 2023 and is presented in net increase (decrease) in fair value of derivatives on the consolidated statements of operations.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

As of March 31, 2023, there were 13,888,889 PIPE warrants issued and outstanding.

Public Warrants

Each public warrant entitles the registered holder to purchase one share of common stock at a price of $11.50 per share, subject to adjustment. Pursuant to the warrant agreement, a warrant holder may exercise its warrants only for a whole number of shares of common stock. This means only a whole warrant may be exercised at a given time by a warrant holder. The warrants will expire on December 7, 2026, at 5:00 p.m., New York City time, or earlier upon redemption or liquidation.

The Company may call the public warrants for redemption as follows: (1) in whole and not in part; (2) at a price of $0.01 per warrant; (3) upon a minimum of 30 days' prior written notice of redemption; (4) if there is an effective registration statement covering the shares of common stock issuable upon exercise of the warrants and a current prospectus available throughout the 30-day notice period; and (5) only if the last reported closing price of the common stock equals or exceeds $18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sends the notice of redemption to the warrant holders.

If the Company calls the public warrants for redemption, management will have the option to require all holders that wish to exercise the Company public warrants to do so on a "cashless basis."

The exercise price and number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances including stock dividends, stock splits, extraordinary dividends, consolidation, combination, reverse stock split or reclassification of shares of the Company's common stock or other similar event. In no event will the Company be required to net cash settle the warrant shares.

As of March 31, 2023 and December 31, 2022, there were 12,150,878 and 12,115,130 public warrants issued and outstanding, respectively.

Private Warrants

The terms and provisions of the public warrants above also apply to the private warrants. If the private warrants are held by holders other than GigAcquisitions4, LLC ("*Sponsor*"), Oppenheimer & Co. Inc. and Nomura Securities International, Inc. (together, the *"Underwriters"*), or any respective permitted transferees, the private warrants will be redeemable by the Company and exercisable by the holders on the same basis as the public warrants. The Sponsor, the Underwriters, and any respective permitted transferees have the option to exercise the private warrants on a cashless basis.

The table below presents the value of the private warrants under the Black-Scholes OPM using the following assumptions as of the following dates:

	March 31, 2023	December 31, 2022
Fair value of each private warrant	$ 0.30	$ 0.04
Exercise price	$ 11.50	$ 11.50
Common stock price	$ 2.44	$ 0.67
Expected option term (in years)	3.7	3.9
Expected volatility	62.10%	72.10 %
Risk-free rate of return	3.70%	4.10 %
Expected annual dividend yield	—%	— %

As of March 31, 2023 and December 31, 2022, the private warrants have a fair value of $52 and $9 and are presented on the consolidated balance sheets within derivative liabilities and other non-current liabilities, respectively. A loss of $43 and $18 was recognized as a result of the change in fair value for the three months ended March 31, 2023 and March 31, 2022, respectively, and are presented in net increase (decrease) in fair value of derivatives on the consolidated statements of operations.

As of March 31, 2023 and December 31, 2022, there were 174,894 and 210,642 private warrants issued and outstanding, respectively.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

Note O—Equity-Based Compensation

Class B Unit Incentive Plan

In February 2021, the Company's Parent, BBAI Ultimate Holdings, LLC ("*Parent*"), adopted a compensatory benefit plan (the *"Class B Unit Incentive Plan"*) to provide incentives to directors, managers, officers, employees, consultants, advisors, and/or other service providers of the Company's Parent or its Subsidiaries in the form of the Parent's Class B Units (*"Incentive Units"*). Incentive Units have a participation threshold of $1.00 and are divided into three tranches (*"Tranche I," "Tranche II," and "Tranche III"*). Tranche I Incentive Units are subject to performance-based, service-based, and market-based conditions. The grant date fair value for the Incentive Units was $5.19 per unit.

The assumptions used in determining the fair value of the Incentive Units at the grant date are as follows:

	February 16, 2021
Volatility	57.0%
Risk-free interest rate	0.1%
Expected time to exit (in years)	1.6

On July 29, 2021, the Company's Parent amended the Class B Unit Incentive Plan so that the Tranche I and the Tranche III Incentive Units immediately became fully vested, subject to continued employment or provision of services, upon the closing of the transaction stipulated in the Agreement and Plan of Merger (the *"Merger Agreement"*) dated June 4, 2021. The Company's Parent also amended the Class B Unit Incentive Plan so that the Tranche II Incentive Units will vest on any liquidation event, as defined in the Class B Unit Incentive Plan, rather than only upon the occurrence of an Exit Sale, subject to the market-based condition stipulated in the Class B Unit Incentive Plan prior to its amendment.

Equity-based compensation for awards with performance conditions is based on the probable outcome of the related performance condition. The performance conditions required to vest per the amended Incentive Plan remain improbable until they occur due to the unpredictability of the events required to meet the vesting conditions. As such events are not considered probable until they occur, recognition of equity-based compensation for the Incentive Units is deferred until the vesting conditions are met. Once the event occurs, unrecognized compensation cost associated with the performance-vesting Incentive Units (based on their modification date fair value) will be recognized based on the portion of the requisite service period that has been rendered.

The modification date fair value of the Incentive Units was $9.06 per unit. The assumptions used in determining the fair value of the Incentive Units at the modification date are as follows:

	July 29, 2021
Volatility	46.0%
Risk-free interest rate	0.2%
Expected time to exit (in years)	1.2

The volatility used in the determination of the fair value of the Incentive Units was based on analysis of the historical volatility of guideline public companies and factors specific to the Successor.

On December 7, 2021, the previously announced Merger was consummated. As a result, the Tranche I and Tranche III Incentive Units immediately became fully vested and the performance condition for the Tranche II Incentive Units was met. The fair value determined at the date of the amendment of the Class B Unit Incentive Plan was immediately recognized as compensation expense on the vesting date for Tranches I and III. Compensation expense for the Tranche II Incentive Units is recognized over the derived service period of 30 months from the modification date. The remaining compensation expense for the Tranche II Incentive Units will be recognized over the remaining service period of approximately 25 months.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

The table below presents the activity in Tranche II of the Class B Units:

Unvested as of December 31, 2022	1,295,000
Forfeited	(40,000)
Unvested as of March 31, 2023	1,255,000

As of March 31, 2023, there was approximately $3,757 of unrecognized compensation costs related to Tranche II Incentive Units, which is expected to be recognized over the remaining weighted average period of 0.83 years.

Stock Options

On December 7, 2021, the Company adopted the BigBear.ai Holdings, Inc. 2021 Long-Term Incentive Plan (the *"Plan"*). The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by providing eligible employees, prospective employees, consultants, and non-employee directors of the Company the opportunity to receive stock- and cash-based incentive awards.

During the three months ended March 31, 2023, pursuant to the Plan, the Company's Board of Directors granted certain grantees Stock Options to purchase shares of the Company's common stock at a weighted-average exercise price of $1.84. The Stock Options vest over four years with 25% vesting on the one year anniversary of the grant date and then 6.25% per each quarter thereafter during years two, three and four. Vesting is contingent upon continued employment or service to the Company and is accelerated in the event of death, disability, or a change in control, subject to certain conditions; both the vested and unvested portion of a Grantee's Stock Options will be immediately forfeited and cancelled if the Grantee ceases employment or service to the Company. The Stock Options expire on the 10th anniversary of the grant date.

The table below presents the fair value of the Stock Options as estimated on the grant date using the Black-Scholes OPM using the following assumptions:

Number of Stock Options granted		2,148,274
Price of common stock on the grant date	$	1.93
Expected option term (in years)		5.8 to 6.2
Expected volatility[1]		96.8% to 97%
Risk-free rate of return		3.4%
Expected annual dividend yield		—%
Fair value of the Stock Options on the grant date		$1.51 to $1.53

[1] Expected volatility is based on a combination of implied and historical equity volatility of selected reasonably similar publicly traded companies.

The table below presents the activity in the Stock Options:

	Stock Options Outstanding		Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)		Aggregate Intrinsic Value
Outstanding as of December 31, 2022	2,982,893	$	2.89	9.64	$	—
Granted	2,148,274		1.84			
Forfeited	(194,493)		4.04			
Expired	(625)		9.99			
Outstanding as of March 31, 2023	4,936,049	$	2.39	9.60	$	3,733
Vested and exercisable as of March 31, 2023	234,491	$	6.43	7.91	$	72

The Stock Options had $3,733 intrinsic value as of March 31, 2023. The Company recognizes equity-based compensation expense for the Stock Options equal to the fair value of the awards on a straight-line basis over the service based vesting period.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

As of March 31, 2023, there was approximately $6,565 of unrecognized compensation costs related to the Stock Options, which is expected to be recognized over the remaining weighted average period of 2.61 years.

Restricted Stock Units

During the three months ended March 31, 2023, pursuant to the Plan, the Company's Board of Directors communicated the key terms and committed to grant Restricted Stock Units (*"RSUs"*) to certain employees and nonemployee directors. The Company granted 6,836,324 RSUs to employees during the three months ended March 31, 2023. RSUs granted to employees generally vest over four years, with 25% vesting on the one year anniversary of the grant date and then 6.25% per each quarter thereafter during years two, three and four. RSUs granted to nonemployee directors vest 25% each quarter following the grant date. Vesting of RSUs is accelerated in the event of death, disability, or a change in control, subject to certain conditions

The table below presents the activity in the RSUs:

	RSUs Outstanding	Weighted-Average Grant Date Fair Value Per Share
Unvested as of December 31, 2022	7,595,185	$ 2.35
Granted	6,836,324	2.01
Vested	(1,130,064)	3.08
Forfeited	(418,857)	4.77
Unvested as of March 31, 2023	12,882,588	$ 2.03

As of March 31, 2023, there was approximately $25,216 of unrecognized compensation costs related to the RSUs, which is expected to be recognized over the remaining weighted average period of 3.32 years.

Performance Stock Units

Pursuant to the Plan, the Company's Board of Directors communicated the key terms and granted Performance Stock Units (*"PSUs"*) to certain employees. The Company grants PSUs to certain employees with performance measures specific to the role of that employee ("*Discretionary PSUs*"). During the three months ended March 31, 2023, the Company also granted 1,133,026 PSUs to employees under the Company's Short-term Incentive Plan ("*STIP PSUs*"), which contain performance measures based on a combination of Company's financial performance as well as the individual's personal performance. The number of Discretionary PSUs and STIP PSUs that will vest is based on the achievement of the performance criteria during each respective annual measurement period, provided that the employees remain in continuous service on each vesting date. Vesting will not occur unless a minimum performance criteria threshold is achieved.

The table below presents the activity in the PSUs:

	PSUs Outstanding	Weighted-Average Grant Date Fair Value Per Share
Unvested as of December 31, 2022	287,500	$ 4.86
Granted	1,133,026	1.84
Forfeited	(112,500)	10.03
Unvested as of March 31, 2023	1,308,026	$ 1.80

As of March 31, 2023, it was not considered probable that the performance conditions of the Discretionary PSUs would be achieved. As a result, no equity-based compensation was recognized for the Discretionary PSUs during the three months ended March 31, 2023.

As of March 31, 2023, it was considered probable that the performance conditions of the STIP PSUs would be achieved. There was approximately $2,040 of unrecognized compensation costs related to the STIP PSUs, which is expected to be recognized over the remaining weighted average period of 0.98 years.

Employee Share Purchase Plan ("ESPP")

Concurrently with the adoption of the Plan, the Company's Board of Directors adopted the 2021 Employee Stock Purchase Plan (the "*ESPP*"), which authorizes the grant of rights to purchase common stock of the Company to employees, officers, and directors (if they are otherwise employees) of the Company. As of January 1, 2022, the Company reserved an aggregate of 3,974,948 common shares (subject to annual increases on January 1 of each year and ending in 2031) of the Company's common stock for grants under the ESPP. As of March 31, 2023, 508,062 shares had been sold under the ESPP and the Company has withheld employee contributions of $510, which are presented on the consolidated balance sheets within other current liabilities.

Equity-based compensation expense related to purchase rights issued under the ESPP is based on the Black-Scholes OPM fair value of the estimated number of awards as of the beginning of the offering period. Equity-based compensation expense is recognized using the straight-line method over the offering period. The table below presents the assumptions used to estimate the grant date fair value of the purchase rights under the ESPP:

ESPP grant date		December 1, 2022
Price of common stock on the grant date	$	0.88
Expected term (in years)		0.50
Expected volatility[1]		110.0%
Risk-free rate of return		4.6%
Expected annual dividend yield		—%
Fair value of the award on the grant date	$	0.40

[1] Expected volatility is based on a combination of implied and historical equity volatility of selected reasonably similar publicly traded companies.

As of March 31, 2023, there was approximately $126 of unrecognized compensation costs related to the ESPP, which is expected to be recognized over the remaining weighted average period of 0.17 years.

Equity-based Compensation Expense

The table below presents the total equity-based compensation expense recognized for Class B Units, Stock Options, RSUs, PSUs and ESPP in selling, general and administrative expense, cost of revenues, and research and development for the following periods:

	Three Months Ended March 31,			
		2023		2022
Equity-based compensation expense in selling, general and administrative	$	2,803	$	3,071
Equity-based compensation expense in cost of revenues		874		700
Equity-based compensation expense in research and development		128		87
Total equity-based compensation expense	$	3,805	$	3,858

Note P—Net Loss Per Share

The numerators and denominators of the basic and diluted net loss per share are computed as follows (in thousands, except per share, unit and per unit data):

	Three Months Ended March 31,			
Basic and diluted net loss per share		**2023**		**2022**
Numerator:				
Net loss	$	(26,214)	$	(18,825)
Denominator:				
Weighted average shares outstanding—basic and diluted		138,548,599		131,882,556
Basic and diluted net loss per Share	$	(0.19)	$	(0.14)

(unaudited; in thousands of U.S. dollars unless stated otherwise)

As of March 31, 2023, there were outstanding Stock Options to purchase 4,936,049 shares of common stock at a weighted-average exercise price of $2.39, outstanding private warrants and public warrants to convert to 174,894 shares and 12,150,878 shares, respectively, of common stock at a price of $11.50 per share, outstanding PIPE warrants to convert to 13,888,889 shares of common stock at a price of $2.39 per share, convertible notes to convert to 18,844,600 shares of common stock at a conversion price of $10.61, ESPP contributions for the option to acquire 2,667,501 shares of common stock, and outstanding restricted stock units and performance stock units representing the right to receive 12,882,588 shares and 1,308,026 shares of common stock, respectively. Because of the net loss incurred during the three months ended March 31, 2023, the impacts of dilutive instruments would have been anti-dilutive for the period presented and have been excluded from loss per share calculations.

As of March 31, 2022, there were outstanding Stock Options to purchase 893,986 shares of common stock at an exercise price of $8.57, outstanding private warrants and public warrants to convert to 366,533 shares and 11,959,939 shares, respectively, of common stock at a price of $11.50 per share, convertible notes to convert to 17,931,304 shares of common stock at an initial conversion price of $11.50, and outstanding restricted stock units and performance stock units representing the right to receive 3,148,274 shares and 150,000 shares of common stock, respectively. Because of the net loss incurred during the three months ended March 31, 2022, the impacts of dilutive instruments would have been anti-dilutive for the period presented and have been excluded from loss per share calculations.

Note Q—Revenues

All revenues were generated within the United States of America.

The table below presents total revenues by contract type for the following periods:

	Three Months Ended March 31,	
	2023	2022
Time and materials	$ 27,159	$ 23,998
Firm fixed price	10,400	8,097
Cost-reimbursable	4,595	4,295
Total revenues	$ 42,154	$ 36,390

The majority of the Company’s revenue is recognized over time. Revenue derived from contracts that recognize revenue at a point in time was insignificant for all periods presented.

(unaudited; in thousands of U.S. dollars unless stated otherwise)

Concentration of Risk

Revenue earned from customers contributing in excess of 10% of total revenues are presented in the tables below for the following periods:

	Three Months Ended March 31, 2023	
	Total	Percent of total revenues
Customer A	$ 6,763	16 %
Customer B	4,668	11 %
Customer C	8,883	21 %
Customer D[1]	4,222	10 %
All others	17,618	42 %
Total revenues	$ 42,154	100 %

	Three Months Ended March 31, 2022	
	Total	Percent of total revenues
Customer A	$ 7,264	20 %
Customer B	4,497	12 %
Customer C	5,351	15 %
Customer D[1]	950	3 %
All others	18,328	50 %
Total revenues	$ 36,390	100 %

[1] Customers that contributed in excess of 10% of consolidated revenues in any period presented have been included in all periods presented for comparability.

Contract Balances

The table below presents the contract assets and contract liabilities included on the consolidated balance sheets for the following periods:

	March 31, 2023	December 31, 2022
Contract assets	$ 2,427	$ 1,312
Contract liabilities	$ 2,347	$ 2,022

The change in contract assets between December 31, 2022 and March 31, 2023was primarily driven by services rendered for customers that are yet to be invoiced. The change in contract liability balances between December 31, 2022 and March 31, 2023 was primarily driven by customers that have been invoiced for which services are yet to be performed. Revenue recognized in the three months ended March 31, 2023 that was included in the contract liability balance as of December 31, 2022 was $2,022.

When the Company's estimate of total costs to be incurred to satisfy a performance obligation exceeds the expected revenue, the Company recognizes the loss immediately. When the Company determines that a change in estimate has an impact on the associated profit of a performance obligation, the Company records the cumulative positive or negative adjustment in the consolidated statements of operations. Changes in estimates and assumptions related to the status of certain long-term contracts may have a material effect on the Company's operating results.

The following table summarizes the impact of the net estimates at completion (*'EAC"*) adjustments on the Company's operating results:

	Three Months Ended March 31,	
	2023	2022
Net EAC Adjustments, before income taxes	$ (1,266)	$ 20
Net EAC Adjustments, net of income taxes	$ (1,000)	$ 16
Net EAC Adjustments, net of income taxes, per diluted share	$ (0.01)	$ —

Remaining Performance Obligations

The Company includes in its computation of remaining performance obligations customer orders for which it has accepted signed sales orders and generally includes the funded and unfunded components of contracts that have been awarded. As of March 31, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations was $72 million. The Company expects to recognize approximately 96% of its remaining performance obligations as revenue within the next 12 months and the balance thereafter.

Note R—Related Party Transactions

During the three months ended March 31, 2023 and 2022, respectively, the Company paid or accrued $295 and $586, as compensation expense for the members of the Board of Directors, including equity-based compensation related to the RSUs of $205 and $322, which is reflected in the selling, general and administrative expenses within the consolidated statements of operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information that BigBear.ai Holdings, Inc. ("BigBear.ai", "BigBear.ai Holdings", or the *"Company") management believes is relevant to an assessment and understanding of BigBear.ai's consolidated results of operations and financial condition. The following discussion and analysis should be read in conjunction with BigBear.ai's consolidated financial statements and notes to those statements included elsewhere in thisQuarterly Report on Form 10-Q. Certain information contained in this management discussion and analysis includes forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors. Please see "Cautionary Note Regarding Forward-Looking Statements," and "Risk Factors" in our Annual Report on Form 10-K. Unless the context otherwise requires, all references in this section to the "Company," "BigBear.ai," "we," "us," or "our" refer to BigBear.ai Holdings, Inc.*

The following discussion and analysis of financial condition and results of operations of BigBear.ai is provided to supplement the consolidated financial statements and the accompanying notes of BigBear.ai included elsewhere in this Quarterly Report on Form 10-Q We intend for this discussion to provide the reader with information to assist in understanding BigBear.ai's consolidated financial statements and the accompanying notes, the changes in those financial statements and the accompanying notes from period to period, along with the primary factors that accounted for those changes. All amounts presented below are in thousands of U.S. dollars unless stated otherwise.

The discussion and analysis of financial condition and results of operations of BigBear.ai is organized as follows:

- **Business Overview:** This section provides a general description of BigBear.ai's business, our priorities and the trends affecting our industry in order to provide context for management's discussion and analysis of our financial condition and results of operations.

- **Recent Developments:** This section provides recent developments that we believe are necessary to understand our financial condition and results of operations.

- **Results of Operations**: This section provides a discussion of our results of operations for the three months ended March 31, 2023 and March 31, 2022.

- **Liquidity and Capital Resources:** This section provides an analysis of our ability to generate cash and to meet existing or reasonably likely future cash requirements.

- **Critical Accounting Policies and Estimates**: This section discusses the accounting policies and estimates that we consider important to our financial condition and results of operations and that require significant judgment and estimates on the part of management in their application. In addition, our significant accounting policies, including critical accounting policies, are summarized in Note B—Summary of Significant Accounting Policies to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q.

Business Overview

Our mission is to help deliver clarity for our clients as they face their most complex decisions. BigBear.ai's artificial intelligence (*"AI"*)-powered decision intelligence solutions are leveraged in three primary markets—global supply chains & logistics, autonomous systems and cybersecurity. BigBear.ai's customers, including federal defense and intelligence agencies, manufacturers, third party logistics providers, retailers, healthcare, and life sciences organizations, rely on BigBear.ai's solutions to empower leaders to decide on the best possible course of action by creating order from complex data, identifying blind spots, and building predictive outcomes. We are a leading technology solutions organization, providing both software and services to our customers.

Recent Developments

Private Placement

On January 19, 2023, the Company consummated the closing of a private placement (the "*Private Placement*"), pursuant to the terms and conditions of the Securities Purchase Agreement, dated January 16, 2023, by and among the Company and Armistice Capital Master Fund Ltd. At the closing of the Private Placement, the Company issued (i) 13,888,889 shares (the "*Private Placement Shares*") of the Company's common stock, par value $0.0001 per share, and (ii) a Common Stock purchase warrant (the "*Warrant*") to purchase up to an additional 13,888,889 shares of Common Stock.

The purchase price per share of each Private Placement Share and the associated Warrant was $1.80. The aggregate gross proceeds to the Company from the Private Placement were approximately $25,000 before deducting the placement agent fees and other offering expenses payable by the Company. The Company used the net proceeds from the offering for general corporate purposes, including working capital.

Segment Information

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker ("*CODM*") in deciding how to allocate resources and in assessing performance. The Company's CODM is its Chief Executive Officer.

As of December 31, 2022, the Company had two operating and reportable segments that were organized by sector: Cyber & Engineering and Analytics. During the three months ended March 31, 2023, the Company reevaluated its operating and reportable segments under Financial Accounting Standards Board ("*FASB*") Accounting Standards Codification ("*ASC*") 280 - *Segment Reporting*, following an organizational and legal entity restructuring, which allowed the Company to align its operations with how the business will be managed. As a result of such changes, the performance of the Company's operations are evaluated by the CODM using the consolidated financial results of the Company. As a result of this reevaluation, effective for the first quarter of fiscal year 2023, the Company determined it that it manages its operations as a single operating and reportable segment.

The single reportable segment is consistent with information used by the CODM to assess performance, make operating decisions, and allocate resources. The Company evaluates the operating performance of its one segment based upon information included in management reports.

Russian Invasion of Ukraine

We are closely monitoring the impact of the Russian invasion of Ukraine and its impact on our business. For our government customers, their focus on addressing immediate needs in Ukraine has slowed the pipeline and pace of contract awards, pushing revenue into subsequent periods. We continue to expect the geopolitical climate to drive adoption of our offerings over the long term, as it has heightened the need for advanced AI tools that provide enhanced intelligence and full spectrum cyber operations – areas where we have unmatched capabilities. While the conflict is still evolving and the outcome remains highly uncertain, we do not believe the Russian invasion will have a material impact on our business and results of operations. However, if the conflict continues or worsens, leading to greater disruptions and uncertainty within the technology industry or global economy, our business and results of operations could be negatively impacted.

Components of Results of Operations

Revenues

We generate revenue by providing our customers with highly customizable solutions and services for data ingestion, data enrichment, data processing, artificial intelligence, machine learning, predictive analytics and predictive visualization. We have a diverse base of customers, including government defense, government intelligence, as well as various commercial enterprises.

Cost of Revenues

Cost of revenues primarily includes salaries, stock-based compensation expense, and benefits for personnel involved in performing the services described above as well as allocated overhead and other direct costs.

We expect that cost of revenues will increase in absolute dollars as our revenues grow and will vary from period-to-period as a percentage of revenues.

Selling, General and Administrative ("SG&A")

SG&A expenses include salaries, stock-based compensation expense, and benefits for personnel involved in our executive, finance, accounting, legal, human resources, and administrative functions, as well as third-party professional services and fees, and allocated overhead.

We expect that SG&A expenses will increase in absolute dollars as we hire additional personnel and enhance our systems, processes, and controls to support the growth in our business as well as our increased compliance and reporting requirements as a public company.

Research and Development

Research and development expenses primarily consist of salaries, stock-based compensation expense, and benefits for personnel involved in research and development activities as well as allocated overhead. Research and development expenses are expensed in the period incurred.

We expect research and development expenses to increase in future periods as we continue to invest in research and development activities to achieve our operational and commercial goals.

Restructuring Charges

Restructuring charges consist of employee separation costs related to strategic cost saving initiatives to better align our organization and cost structure and improve the affordability of our products and services.

Transaction Expenses

Transaction expenses consist of acquisition costs and other related expenses incurred in acquiring ProModel Corporation as well as costs associated with evaluating other acquisition opportunities.

We expect to incur acquisition costs and other related expenses periodically in the future as we continue to seek acquisition opportunities to expand our technological capabilities.

Net Increase (Decrease) in Fair Value of Derivatives

Net increase (decrease) in fair value of derivatives consists of fair value remeasurements of private warrants, PIPE warrants, and written put options.

Interest Expense

Interest expense consists primarily of interest expense, commitment fees, and debt issuance cost amortization under our debt agreements.

Income Tax Expense

Income tax expense consists of income taxes related to federal and state jurisdictions in which we conduct business.

Results of Operations

The table below presents our consolidated statements of operations for the following periods:

	Three Months Ended March 31,	
	2023	2022
Revenues	$ 42,154	$ 36,390
Cost of revenues	31,941	26,523
Gross margin	**10,213**	**9,867**
Operating expenses:		
Selling, general and administrative	20,362	22,020
Research and development	1,128	2,874
Restructuring charges	755	—
Transaction expenses	—	1,399
Operating loss	**(12,032)**	**(16,426)**
Net increase (decrease) in fair value of derivatives	10,567	(1,263)
Interest expense	3,556	3,555
Other expense	—	30
Loss before taxes	**(26,155)**	**(18,748)**
Income tax expense	59	77
Net loss	**$ (26,214)**	**$ (18,825)**

Comparison of the Three Months Ended March 31, 2023 and 2022

Revenues

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
Revenues	$ 42,154	$ 36,390	$ 5,764	15.8 %

Revenues increased by $5,764 during the three months ended March 31, 2023 as compared to the three months ended March 31, 2022 primarily as a result of new contract awards and increased volume of certain contracts with Army customers.

Cost of Revenues

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
Cost of revenues	$ 31,928	$ 26,523	$ 5,405	20.4 %
Cost of revenues as a percentage of revenues	*76 %*	*73 %*		

Cost of revenues as a percentage of total revenues increased to 76% for the three months ended March 31, 2023 as compared to 73% for the three months ended March 31, 2022, primarily due to the cumulative impact of estimated cost increases on the GFIM Phase 2 contract.

SG&A

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
SG&A	$ 20,362	$ 22,020	$ (1,658)	(7.5)%
SG&A as a percentage of revenues	*48 %*	*61 %*		

SG&A expenses as a percentage of total revenues for the three months ended March 31, 2023 decreased to 48% as compared to 61% for the three months ended March 31, 2022, which was primarily driven by a reduction in non-recurring integration costs of $2,375, as well as capital market advisory fees of $703 and commercial start-up costs of $3,427 incurred during the three months ended March 31, 2022. No non-recurring integration costs, capital market advisory fees, or commercial start-up costs were incurred during the three months ended March 31, 2023. These decreases were partially offset by $1,508 of professional fees related to non-recurring strategic initiatives and a $750 bad debt reserve against receivables from Virgin Orbit, which announced it's Chapter 11 bankruptcy filing in early April.

Research and Development

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
Research and development	$ 1,128	$ 2,874	$ (1,746)	(60.8)%

Research and development expenses decreased by $1,746 during the three months ended March 31, 2023 as compared to the three months ended March 31, 2022. The decrease in research and development expenses was driven by decreased headcount as well as the timing of certain research and development projects.

Restructuring Charges

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
Restructuring charges	$ 755	$ —	$ 755	100.0 %

Restructuring charges consist of employee separation costs related to strategic cost saving initiatives to better align our organization and cost structure and improve the affordability of our products and services.

Transaction Expenses

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
Transaction expenses	$ —	$ 1,399	$ (1,399)	(100.0)%

Transaction expenses for the three months ended March 31, 2022consist of acquisition costs and other related expenses incurred in acquiringProModel Corporation.

Net Increase (Decrease) in Fair Value of Derivatives

	Three Months Ended March 31,		Change	
	2022	2021	Amount	%
Net increase (decrease) in fair value of derivatives	$ 10,567	$ (1,263)	$ 11,830	(936.7)%

The net increase in fair value of derivatives of$10,567 for the three months ended March 31, 2023 consists of fair value remeasurements of private warrants and PIPE warrants. The net decrease in fair value of derivatives of $1,263 for the three months ended March 31, 2022 consists of fair value remeasurements of written put options and private warrants. The written put option was fully settled as of March 31, 2022.

Interest Expense

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
Interest expense	$ 3,556	$ 3,555	$ 1	— %

Interest expense consists primarily of interest expense, commitment fees and debt issuance cost amortization under our Convertible Notes and Bank of America Senior Revolver. See the *Liquidity and Capital Resources* section below for more information.

Income Tax Expense

	Three Months Ended March 31,		Change	
	2023	2022	Amount	%
Income tax expense	$ 59	$ 77	$ (18)	(23.4)%
Effective tax rate	(0.2)%	(0.4)%		

The effective tax rate for the three months ended March 31, 2023 was relatively flat compared to the three months ended March 31, 2022. The effective tax rate for the three months ended March 31, 2023 and March 31, 2022 differs from the U.S. federal income tax rate of 21.0% primarily due to state and local income taxes, permanent differences between book and taxable income, certain discrete items,and the change in valuation allowance.

As of March 31, 2023, the Company has determined that it is not more-likely-than-not that substantially all of its deferred tax assets will be realized in the future, and continues to have a full valuation allowance established against its deferred tax assets.

Supplemental Non-GAAP Information

The Company uses Adjusted EBITDA to evaluate its operating performance, generate future operating plans, and make strategic decisions, including those relating to operating expenses and the allocation of internal resources. Adjusted EBITDA is a financial measure not calculated in accordance with GAAP. Adjusted EBITDA is defined as net income (loss) adjusted for interest expense (income), net, income tax expense (benefit), depreciation and amortization, equity-based compensation and associated employer payroll taxes, net increase (decrease) in fair value of derivatives, restructuring charges, capital market advisory fees, non-recurring integration costs, commercial start-up costs, and transaction expenses. Non-GAAP financial performance measures are used to supplement the financial information presented on a GAAP basis. This non-GAAP financial measure should not be considered in isolation or as a substitute for the relevant GAAP measures and should be read in conjunction with information presented on a GAAP basis. Because not all companies use identical calculations, our presentation of non-GAAP measures may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA - Non-GAAP

The following table presents a reconciliation of Adjusted EBITDA to net loss, computed in accordance with GAAP:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Net loss	$ (26,214)	$ (18,825)
Interest expense	3,556	3,555
Income tax expense	59	77
Depreciation and amortization	1,986	1,772
EBITDA	(20,613)	(13,421)
Adjustments:		
Equity-based compensation	3,805	3,858
Employer payroll taxes related to equity-based compensation[1]	183	—
Net increase (decrease) in fair value of derivatives[2]	10,567	(1,263)
Restructuring charges[3]	755	—
Non-recurring strategic initiatives[4]	1,508	—
Non-recurring integration costs[5]	—	2,375
Capital market advisory fees[6]	—	703
Commercial start-up costs[7]	—	3,427
Transaction expenses[8]	—	1,399
Adjusted EBITDA	$ (3,795)	$ (2,922)

(1) Includes employer payroll taxes due upon the vesting of restricted stock units granted to employees.

(2) The increase in fair value of derivatives in the first quarter of 2023 primarily relates to changes in the fair value of the PIPE warrants that were issued during the first quarter of 2023. The decrease in fair value of derivatives during the first quarter of 2022 primarily relates to the Forward Share Purchase Agreements that were entered into prior to the closing of our business combination on December 7, 2021 (the "Business Combination") and were fully settled during the first quarter of 2022.

(3) In the first quarter of 2023, the Company incurred employee separation costs associated with a strategic review of the Company's capacity and future projections to better align the organization and cost structure and improve the affordability of its products and services.

(4) Non-recurring professional fees related to the execution of certain strategic initiatives of the Company.

(5) Non-recurring internal integration costs related to the Business Combination.

(6) The Company incurred capital market and advisory fees related to advisors assisting with the Business Combination.

(7) Commercial start-up costs include certain non-recurring expenses associated with tailoring the Company's products for commercial customers and use cases.

(8) The Company incurred transaction expenses related to the acquisition of ProModel Corporation, which closed on April 7, 2022.

Free Cash Flow

Free cash flow is defined as net cash used in operating activities less capital expenditures. Management believes free cash flow is useful to investors, analysts and others because it provides a meaningful measure of the Company's ability to generate cash and meet its debt obligations.

The table below presents a reconciliation of free cash flow to net cash used in operating activities, computed in accordance with GAAP:

	Three Months Ended March 31,	
	2023	2022
Net cash used in operating activities	$ (12,017)	$ (7,529)
Capital expenditures, net	—	(359)
Free cash flow	**$ (12,017)**	**$ (7,888)**

Key Performance Indicators

Backlog

We view growth in backlog as a key measure of our business growth. Backlog represents the estimated dollar value of contracts that we have been awarded for which work has not yet been performed, and in certain cases, our estimate of known opportunities for future contract awards on customer programs that we are currently supporting.

The majority of our historical revenues are derived from contracts with the Federal Government and its various agencies. In accordance with the general procurement practices of the Federal Government, most contracts are not fully funded at the time of contract award. As work under the contract progresses, our customers may add incremental funding up to the initial contract award amount. We generally do not deliver goods and services to our customers in excess of the appropriated contract funding.

At the time of award, certain contracts may include options for our customers to procure additional goods and services under the contract. Options do not create enforceable rights and obligations until exercised by our customers and thus we only recognize revenues related to options as each option is exercised. Contracts with such provisions may or may not specify the exact scope, nor corresponding price, associated with options; however, these contracts will generally identify the expected period of performance for each option. In cases where we have negotiated the estimated scope and price of an option in the contract with our customer, we use that information to measure our backlog and we refer to this as Priced Unexercised Options. If a contract does not specify the scope, level-of-effort, or price related to options to procure additional goods and services, we estimate the backlog associated with those options based on our discussions with our customer, our current level of support on the customer's program, and the period of performance for each option that was negotiated in the contract. We refer to this as Unpriced Unexercised Options.

We define backlog in these categories to provide the reader with additional context as to the nature of our backlog and so that the reader can understand the varying degrees of risk, uncertainty, and where applicable, management's estimates and judgements used in determining backlog at the end of a period. The categories of backlog are further defined below.

- *Funded Backlog.* Funded backlog represents the contract value of goods and services to be delivered under existing contracts for which funding is appropriated or otherwise authorized less revenues previously recognized on these contracts.

- *Unfunded backlog.* Unfunded backlog represents the contract value, or portion thereof, of goods and services to be delivered under existing contracts for which funding has not been appropriated or otherwise authorized.

- *Priced Unexercised Options.* Priced unexercised contract options represent the value of goods and services to be delivered under existing contracts if our customer elects to exercise all of the options available in the contract. For priced unexercised options, we measure backlog based on the corresponding contract values assigned to the options as negotiated in our contract with our customer.

- *Unpriced Unexercised Options.* Unpriced unexercised contract options represent the value of goods and services to be delivered under existing contracts if our customer elects to exercise all of the options available in the contract. For unpriced unexercised options, we estimate backlog generally under the assumption that our current level of support on the contract will persist for each option period.

The following table summarizes certain backlog information (in thousands):

	March 31, 2023	December 31, 2022
Funded	$ 52,235	$ 57,234
Unfunded	19,630	18,220
Priced, unexercised options	80,946	112,119
Unpriced, unexercised options	43,701	30,900
Total backlog	**$ 196,512**	**$ 218,473**

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows provided by our operations and access to existing credit facilities. Our primary short-term cash requirements are to fund payroll obligations, working capital, operating lease obligations, and short-term debt, including current maturities of long-term debt. Working capital requirements can vary significantly from period to period, particularly as a result of the timing of receipts and disbursements related to long-term contracts.

Our medium-term to long-term cash requirements are to service and repay debt and to invest in facilities, equipment, technologies, and research and development for growth initiatives.

Our ability to fund our cash needs will depend, in part, on our ability to generate cash in the future, which depends on our future financial results. Our future results are subject to general economic, financial, competitive, legislative and regulatory factors that may be outside of our control. Our future access to, and the availability of credit on acceptable terms and conditions, is impacted by many factors, including capital market liquidity and overall economic conditions.

As stated in Note H—Debt of the Notes to consolidated financial statements included in this Quarterly Report on Form 10-Q, the Company was not in compliance with the covenants of the Senior Revolver as of June 30, 2022 and September 30, 2022. Although the Company entered into the First Amendment, which waived the requirement that the Company demonstrate compliance with the minimum Fixed Charge Coverage ratio provided for in the Credit Agreement for the quarter ended June 30, 2022, and the Second Amendment, which removed the requirement to comply with the minimum Fixed Charge Coverage ratio, it is currently unable to draw on the Senior Revolver. See *Bank of America Senior Revolver* section below for more information regarding the First and Second Amendments.

While we intend to reduce debt over time using cash provided by operations, we may also attempt to meet long-term debt obligations, if necessary, by obtaining capital from a variety of additional sources or by refinancing existing obligations. These sources include public or private capital markets, bank financings, proceeds from dispositions or other third-party sources.

Our available liquidity consists primarily of available cash and cash equivalents. The following table details our available liquidity:

	March 31, 2023	December 31, 2022
Available cash and cash equivalents	$ 21,827	$ 12,632
Available borrowings from our existing credit facilities	—	—
Total available liquidity	**$ 21,827**	**$ 12,632**

The following table summarizes our existing credit facilities:

	March 31, 2023	December 31, 2022
Convertible Notes	$ 200,000	$ 200,000
Bank of America Senior Revolver	—	—
D&O Financing Loan	1,296	2,059
Total debt	201,296	202,059
Less: unamortized issuance costs	7,193	7,682
Total debt, net	194,103	194,377
Less: current portion	1,296	2,059
Long-term debt, net	**$ 192,807**	**$ 192,318**

Convertible Notes

Upon consummation of the Merger, the Company issued $200.0 million of unsecured convertible notes (the *"Convertible Notes"*) to certain investors. The Convertible Notes bear interest at a rate of 6.0% per annum, payable semi-annually, and not including any interest payments that are settled with the issuance of shares, were convertible into 17,391,304 shares of the Company's common stock at an initial Conversion Price of $11.50. The Conversion Price is subject to adjustments, including but not limited to, the Conversion Rate Reset described below and in Note H—Debt of the Notes to consolidated financial statements included in this Quarterly Report on Form 10-Q The Convertible Notes mature on December 15, 2026.

On May 29, 2022, pursuant to the conversion rate adjustment provisions in the Convertible Note indenture, the Conversion Price was adjusted to $10.61 (or 94.2230 shares of common stock per $1,000 principal amount of Convertible Notes) because the average of the daily volume-weighted average price of the common stock during the preceding 30 trading days was less than $10.00 (the "*Conversion Rate Reset*"). Subsequent to the Conversion Rate Reset, the Convertible Notes are convertible into 18,844,600 shares, not including any interest payments that are settled with the issuance of shares.

The Convertible Notes require the Company to meet certain financial and other covenants. As of March 31, 2023, the Company was in compliance with all covenants.

As of March 31, 2023, the Company has an outstanding balance of $200.0 million related to the Convertible Notes, which is recorded on the balance sheet net of approximately $7.2 million of unamortized debt issuance costs.

Bank of America Senior Revolver

BigBear.ai is a party to a senior Bank of America Credit Agreement, entered into on December 7, 2021, subsequently amended on November 8, 2022, providing BigBear.ai with a $25.0 million senior secured revolving credit facility (the *"Senior Revolver"*). Proceeds from the Senior Revolver will be used to fund working capital needs, capital expenditures, and other general corporate purposes. The Senior Revolver matures on December 7, 2025.

The Senior Revolver includes borrowing capacity available for letters of credit and for borrowings on same-day notice, referred to as the "swing loans." Any issuance of letters of credit or making of a swing loan will reduce the amount available under the revolving credit facility. BigBear.ai may increase the commitments under the Senior Revolver in an aggregate amount of up to the greater of $25.0 million or 100% of consolidated adjusted EBITDA plus any additional amounts so long as certain conditions, including compliance with the applicable financial covenants for such period, in each case on a pro forma basis, are satisfied.

The Bank of America Credit Agreement requires BigBear.ai to meet certain financial and other covenants. The Company was not in compliance with the Fixed Charge Coverage ratio requirement as of June 30, 2022, and as a result was unable to draw on the facility. The Company notified Bank of America N.A. of the covenant violation, and on August 9, 2022, entered into the First Amendment, which among other things, waived the requirement that the Company demonstrate compliance with the minimum Fixed Charge Coverage ratio provided for in the Credit Agreement for the quarter ended June 30, 2022.

The Company was not in compliance with the Fixed Charge Coverage ratio requirement as of September 30, 2022, and as a result was unable to draw on the facility. On November 8, 2022, the Company entered into a Second Amendment to the Bank of America Credit Agreement (the " *Second Amendment*"), which modifies key terms of the Senior Revolver. As a result of the Second Amendment, funds available under the Senior Revolver are reduced to $25.0 million from $50.0 million, limited to a borrowing base of 90% of Eligible Prime Government Receivables and Eligible Subcontractor Government Receivables, plus

85% of Eligible Commercial Receivables. Additionally, the Second Amendment increased the Base Rate Margin, BSBY Margin and unused commitment fees by 0.25%. Following entry into the Second Amendment, the Senior Revolver no longer is subject to a minimum Fixed Charge Coverage ratio covenant. In order for the facility to become available for borrowings (the "*initial availability quarter*"), the Company must report Adjusted EBITDA of at least one dollar. Commencing on the first fiscal quarter after the initial availability quarter, the Company is required to have aggregated reported Adjusted EBITDA of at least $1 over the two preceding quarters to maintain its ability to borrow under the Senior Revolver (though the inability to satisfy such condition does not result in a default under the Senior Revolver).

Failure to meet these Adjusted EBITDA requirements is not deemed to be a default but will limit the Company's ability to make borrowings under the Senior Revolver until such time that the Company is able meet the Adjusted EBITDA thresholds as defined in the Second Amendment. The Company did not meet the Adjusted EBITDA requirement during the three months ended March 31, 2023, and is unable to draw on the Senior Revolver as of March 31, 2023.

The Second Amendment removes the requirement that the Company demonstrate compliance with the minimum Fixed Charge Coverage ratio.

Based on current forecasts, management believes that it is reasonably likely that the Company may fail to meet the minimum Adjusted EBITDA requirements of the Bank of America Credit Agreement in future periods and therefore, may be unable to draw on the facility. Management performed a cash flow analysis to identify the Company's projected approximate cash flow and liquidity needs for the next 12 months. Based on the Company's projected cash flow and liquidity needs, we believe that our cash from operating activities generated from continuing operations during the year will be adequate for the next 12 months to meet our anticipated uses of cash flow, including payroll obligations, working capital, operating lease obligations, capital expenditures and debt service costs, and it is considered unlikely that the Company would require access to draw funds on the Senior Revolver in the foreseeable future.

As of March 31, 2023, the Company had not drawn on the Senior Revolver. Unamortized debt issuance costs of $186 were recorded on the balance sheet and are presented in Other non-current assets.

Refer to Note H—Debt of the Notes to consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

D&O Financing Loan

On December 8, 2021, the Company entered into a $4,233 loan (the *"D&O Financing Loan"*) with AFCO Credit Corporation to finance the Company's directors and officers insurance premium through December 2022. The D&O Financing Loan had an interest rate of 1.50% per annum and a maturity date of December 8, 2022.

On December 8, 2022, the Company entered into a $2,059 loan (the "*2023 D&O Financing Loan*") with AFCO Credit Corporation to finance the Company's directors and officers insurance premium through December 2023. The 2023 D&O Financing Loan required an upfront payment of $1,109 and has an interest rate of 5.75% per annum and a maturity date of December 8, 2023.

Cash Flows

The table below summarizes certain information from our consolidated statements of cash flows for the following periods:

	Three Months Ended March 31,	
	2023	**2022**
Net cash used in operating activities	(12,017)	(7,529)
Net cash used in investing activities	—	(359)
Net cash provided by (used in) financing activities	21,212	(102,055)
Net increase (decrease) in cash and cash equivalents and restricted cash	9,195	(109,943)
Cash and cash equivalents and restricted cash at the beginning of period	12,632	169,921
Cash and cash equivalents and restricted cash at the end of the period	$ 21,827	$ 59,978

Operating activities

For the three months ended March 31, 2023, net cash used in operating activities was $12,017. Net loss before deducting depreciation, amortization and other non-cash items was $8,447 and was further impacted by an unfavorable change in net working capital of $3,570 which contributed to operating cash flows during this period. The unfavorable change in net working capital was largely driven by a decrease in accounts payable of $4,914 and increases in contract assets of $1,115 and accounts receivable of $3,469. These were partially offset by a decrease in prepaid expenses and other assets of $1,488 and an increase in accrued liabilities of $4,066.

For the three months ended March 31, 2022, net cash used in operating activities was $7,529. Net loss before deducting depreciation, amortization and other non-cash items was $13,761 and was further impacted by a favorable change in net working capital of $6,232 which contributed to operating cash flows during this period. The favorable change in net working capital was largely driven by an increase in accrued liabilities of $6,307 primarily due to increases in accrued interest and accrued transaction expenses, a decrease in accounts receivable of $1,981, and an increase in accounts payable of $1,150. These increases were partially offset by a decrease in contract liabilities of $1,415 and an increase in contract assets of $2,306.

Investing activities

There were no investing activities during the three months ended March 31, 2023.

For the three months ended March 31, 2022, net cash used in investing activities was $359, consisting of the purchase of property and equipment of $359.

Financing activities

For the three months ended March 31, 2023, net cash provided by financing activities was $21,212, primarily consisting of the net proceeds from the issuance of the Private Placement shares of $21,975, offset by the partial repayment of $763 related to the 2023 D&O Financing Loan.

For the three months ended March 31, 2022, net cash used in financing activities was $102,055, consisting of the purchase of Company shares as a result of settlement of the FPAs of $100,896, and the partial repayment of short-term borrowings of $1,159 related to the D&O Financing Loan.

Critical Accounting Policies and Estimates

For the critical accounting estimates used in preparing our consolidated financial statements, we make assumptions and judgments that can have a significant impact on revenue and expenses in our consolidated statements of operations, as well as, on the value of certain assets and liabilities on our consolidated balance sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe are reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions.

Our critical accounting estimates have not changed materially from those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operation included in our Annual Report on Form 10-K, for the year ended December 31, 2022, as filed with the SEC on March 31, 2023 and subsequently amended on April 7, 2023.

Recent Accounting Pronouncements

See Note B—Summary of Significant Accounting Policies of the consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our main exposure to market risk relates to changes in the value of our common stock or other instruments that are tied to our common stock including derivative liabilities and convertible debt. Decreases in the value of our common stock have triggered certain reset provisions in our Convertible Notes that are based on the value of our common stock and volume of shares traded during the reset period. On May 29, 2022, pursuant to the Convertible Note indenture, the conversion rate applicable to the Convertible Notes was adjusted to 94.2230 (previously 86.9565) shares of common stock per $1,000 principal amount of Convertible Notes because the average of the daily volume-weighted average price of the common stock during the preceding 30 trading days was less than $10.00 (the “Conversion Rate Reset”). After giving effect to the Conversion Rate Reset, the conversion price is $10.61 and the Convertible Notes are convertible into 18,844,600 shares, not including any interest payments that are settled with the issuance of shares. In addition, the Convertible Notes indenture contains certain “make-whole” provisions pursuant to which, under certain circumstances, the Company must increase the conversion rate and such increase depends, in part, on the price of our common stock. Refer to Note L—Written Put Option and Note H—Debt in the notes to our consolidated financial statements in Item 1 on this Quarterly Report on Form 10-Q for further information.
We are also exposed to market risk related to interest rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate long-term debt and revolving credit, if drawn. As of March 31, 2023, the outstanding principal amount of our debt was $201.3 million, excluding unamortized discounts and issuance costs of $7.2 million.

Inflation affects the way we operate in our target markets. In general, we believe that, over time, we will be able to increase prices to counteract the majority of the inflationary effects of increasing costs and to generate sufficient cash flows to maintain our productive capability. Additionally, many of our long-term contracts have annual rate escalation clauses.

We have established policies, procedures and internal processes governing our management of market risks and to manage and mitigate our exposure to these risks.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that as of March 31, 2022, our disclosure controls and procedures were not effective due to the existence of previously reported material weaknesses in internal control over financial reporting. The material weaknesses were identified and discussed in “Part II - Item 9A - Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2022.

Management’s Report on Internal Controls Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2022. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013 framework). Based on this assessment, management concluded that material weaknesses exist in our internal control over financial reporting as of December 31, 2022. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements could occur but will not be prevented or detected on a timely basis.

Our Annual Report on Form 10-K did not include an attestation report of our registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

In addition, because we are an “emerging growth company” under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting for so long as we are an emerging growth company.

Remediation Efforts to Address Material Weaknesses

Management has and will continue to enhance the risk assessment process and design of internal control over financial reporting which, among other procedures, includes enhancing segregation of duties, enhancing the documentation of the Company's analysis and conclusions on revenue recognition from contracts with customers, implementing additional IT General Controls, and increasing monitoring and oversight activities. Additionally, management will continue to enhance the documentation of the Company's analysis and conclusions on revenue recognition from contracts with customers. The material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of these material weaknesses will be completed prior to the end of fiscal year 2023.

Changes in Internal Controls Over Financial Reporting

Other than the steps taken to work towards the remediation of the material weakness identified above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a - 15(d) and 15d - 15(d) of the Exchange Act that occurred during the three months ended March 31, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to litigation, claims, investigations and audits arising from time to time in the ordinary course of business. Although legal proceedings are inherently unpredictable, we believe that we have valid defenses with respect to any matters currently pending against us and we intend to vigorously defend against such matters. The outcome of these matters, individually and in the aggregate, is not expected to have a material impact on our consolidated balance sheets, statements of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in "Item 1A, Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2022. These risks and uncertainties have the potential to materially affect our business, results of operations, financial condition, cash flows, projected results and future prospects. These risks are not exclusive and additional risks to which we are subject include the factors mentioned under "Forward-Looking Statements" and the risks described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q.

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

Recent Sales of Unregistered Securities

On January 19, 2023, the Company consummated the closing of the Private Placement, pursuant to the terms and conditions of the

Securities Purchase Agreement, and issued the Shares of the Company's common stock and the Warrants to purchase shares of the Company's common stock. The purchase price of each Share and associated Warrant was $1.80. The aggregate gross proceeds to the Company from the Private Placement were approximately $25,000,000, before deducting the placement agent fees and other offering expenses payable by the Company. On January 30, 2023, the Company filed a registration statement on Form S-3 (Registration No. 333-269465) to register the securities issued in the Private Placement, which was subsequently declared effective by the SEC on February 13, 2023.

Issuer Purchases of Equity Securities

There were no repurchases of our common stock during the three months ended March 31, 2023.

Item 6. Exhibits

		Incorporated by Reference					
Exhibit Number	**Description of Exhibits**	**Form**	**Date Filed**	**File Number**	**Original Exhibit Number**	**Filed Herewith**	**Furnished Herewith**
4.1	Form of Common Stock Purchase Warrant.	8-K	1/19/2023	001-40031	4.1		
10.1	Form of Securities Purchase Agreement, dated as of January 16, 2023, by and among the Company and the Purchaser.	8-K	1/19/2023	001-40031	10.1		
10.2	Form of Registration Rights Agreement, dated as of January 16, 2023, by and among the Company and the Purchaser.	8-K	1/19/2023	001-40031	10.2		
10.3	Third Amendment to Credit Agreement with Bank of America, N.A.,					X	
10.4	Offer Letter, dated May 4, 2023, between BigBear.ai Holdings, Inc. and Norm Laudermilch	8-K	5/9/2023	001-40031	10.1		
31.1	Certification of Chief Executive Officer (Principal Executive Officer) pursuant to Rules 13a-14(a) and 15d-14(a), under the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X	
31.2	Certification of Chief Financial Officer (Principal Financial Officer) pursuant to Rules 13a-14(a) and 15d-14(a), under the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X	
32.1	Certification of Chief Executive Officer (Principal Executive Officer) pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.						X
32.2	Certification of Chief Financial Officer (Principal Financial Officer) pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.						X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)					X	
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X	
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).					X	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, BigBear.ai Holdings, Inc. has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 15, 2023	**By:**	/s/ Amanda Long
	Name	Amanda Long
	Title:	Chief Executive Officer (Principal Executive Officer)
Date: May 15, 2023	**By:**	/s/ Julie Peffer
	Name	Julie Peffer
	Title:	Chief Financial Officer (Principal Financial Officer)

Exhibit 10.3

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of April 21, 2023 (the "Third Amendment Effective Date"), is entered into among BigBear.ai Holdings, Inc., a Delaware corporation (the "Lead Borrower"), the other Borrowers party hereto, the Guarantors party hereto, the Lenders party hereto and Bank of America, N.A., as administrative agent (in such capacity, the "Administrative Agent"), collateral agent (in such capacity, the "Collateral Agent"), Swingline Lender and as an Issuing Bank. Capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement (as defined below), as applicable.

RECITALS

WHEREAS, the Borrowers, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent and Collateral Agent, are parties to that certain Credit Agreement, dated as of December 7, 2021 (as amended, modified, supplemented, increased, extended, restated, renewed, refinanced and replaced from time to time prior to the Third Amendment Effective Date, the "Existing Credit Agreement");

WHEREAS, the Borrowers have failed to comply with the requirements set forth in Section 5.01(g) of the Credit Agreement for the months ending December 31, 2022, January 31, 2023, February 28, 2023, and March 31, 2023 (the "Existing Events of Default"), which failure constitutes an Event of Default under Section 7.01 of the Credit Agreement; and

WHEREAS, the Borrowers have requested that the Existing Credit Agreement be amended as set forth below (the Existing Credit Agreement, as so amended, the "Credit Agreement"), in each case, subject to the terms and conditions specified in this Amendment; and

WHEREAS, each party hereto is willing to amend the Existing Credit Agreement as set forth below, in each case, subject to the terms and conditions specified in this Amendment and in the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Existing Credit Agreement. Section 5.01(g) is amended to read as follows:

> "Commencing with the date that the Borrower delivers positive SEC Reported EBITDA for a quarter, and within twenty (20) days after the end of each calendar month thereafter, a Borrowing Base Certificate signed by a Responsible Officer of the Lead Borrower calculated as of the end of such month with such supporting evidence as reasonably requested in writing by the Administrative Agent and a detailed aging of the Eligible Receivables by account debtor and a detailed aging of accounts payable;"

2. Waiver. The Lenders hereby waive the Existing Events of Default. The foregoing waiver is a one-time waiver and applies only to this specific instance and shall not relieve the Borrower of its obligation to comply with Section 5.01(g) of the Credit Agreement after the date hereof.

3. Conditions Precedent. This Amendment shall be effective upon receipt by the Administrative Agent of counterparts of this Amendment duly executed by (i) a Responsible Officer of each Loan Party, (ii) the Required Lenders and (iii) the Administrative Agent.

4. Miscellaneous.

(a) The Loan Documents and the obligations of the Loan Parties thereunder are hereby ratified and confirmed and shall remain in full force and effect according to their terms, as amended hereby.

(b) Each Loan Party (i) acknowledges and consents to all of the terms and conditions of this Amendment and the transactions contemplated hereby, (ii) affirms all of its obligations under the Loan Documents to which it is a party, and (iii) agrees that this Amendment and all documents executed in connection herewith do not operate to reduce or discharge its obligations under the Loan Documents to which it is a party. Each Loan Party hereby acknowledges that, as of the Second Amendment Effective Date, the security interests and Liens granted to the Collateral Agent for the benefit of the Secured Parties under the Collateral Documents to secure the Secured Obligations are in full force and effect, are properly perfected, and are enforceable in accordance with the terms of the Collateral Documents and the other Loan Documents.

(c) Each Loan Party hereby represents and warrants to the Agents and the Lenders as follows:

(i) After giving effect to this Amendment: (A) the representations and warranties of each Loan Party contained in the Credit Agreement or any other Loan Document, or which are contained in any document furnished at any time under or in connection with the Credit Agreement or any other Loan Document are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case such representations and warranties are true and correct in all material respects as of such earlier date, and (B) no Default exists.

(ii) The Persons signing this Amendment as Guarantors include all of the Subsidiaries existing as of the Second Amendment Effective Date that are required to become Guarantors pursuant to the Existing Credit Agreement on or prior to the Second Amendment Effective Date.

(d) This Amendment may be executed in any number of counterparts and by the various parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by telecopy or in any other electronic format (such as .pdf format) shall be effective as delivery of a manually executed original counterpart of this Amendment. Subject to Section 9.15 of the Credit Agreement, execution of this Amendment shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Administrative Agent, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper based recordkeeping system, as the case may be.

(e) This Amendment is a Loan Document. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or any Agent under any of the Loan Documents, nor, except as expressly provided herein, constitute a waiver or amendment of any provision of any of the Loan Documents. Upon the effectiveness hereof, all references to the "Credit Agreement" set forth in any other agreement or instrument shall, unless otherwise specifically provided, be references to the Credit Agreement as amended hereby.

(f) **THIS AMENDMENT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICTS OF LAWS. THIS AMENDMENT SHALL BE FURTHER SUBJECT TO THE TERMS AND CONDITIONS OF SECTIONS 9.10 AND 9.11 OF THE CREDIT AGREEMENT,**

THE TERMS OF WHICH ARE INCORPORATED HEREIN BY REFERENCE AS IF FULLY SET FORTH HEREIN.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Third Amendment to Credit Agreement to be duly executed and delivered by a duly authorized officer as of the date first above written.

BORROWERS: BIGBEAR.AI HOLDINGS, INC., as the Lead Borrower
BIGBEAR.AI INTERMEDIATE HOLDINGS, LLC, as a Borrower
BIGBEAR.AI, LLC, as a Borrower
BIGBEAR.AI FEDERAL, LLC, as a Borrower
PCI STRATEGIC MANAGEMENT, LLC, as a Borrower
PROMODEL GOVERNMENT SOLUTIONS, INC., as a Borrower
OPEN SOLUTIONS GROUP, LLC, as a Borrower

/Julie Peffer/
By:______________
Name: Julie Peffer
Title: Chief Financial Officer

GUARANTORS: PROMODEL, LLC, as a Guarantor

/Julie Peffer/
By:______________
Name: Julie Peffer
Title: Chief Financial Officer

[SIGNATURE PAGES CONTINUE]

ADMINISTRATIVE AGENT AND
COLLATERAL AGENT: BANK OF AMERICA, N.A.,
as Administrative Agent and as Collateral Agent

By: */Larry Van Sant/*
Name: Larry Van Sant
Title: Senior Vice President

LENDERS: BANK OF AMERICA, N.A., as a Lender, Swingline Lender and as an Issuing Bank

By: */Larry Van Sant/*
Name: Larry Van Sant
Title: Senior Vice President

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Amanda Long, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BigBear.ai Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 15, 2023	By: /s/ Amanda Long
	Amanda Long
	Title: Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Julie Peffer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BigBear.ai Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023	By: /s/ Julie Peffer
	Julie Peffer
	Title: Chief Financial Officer (Principal Financial Officer)

<u>Exhibit 32.1</u>

Certification Pursuant to 18 U.S.C. SECTION 1350,
as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2023 of IigBear.ai Holdings, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Amanda Long, the Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that;

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 15, 2023	By: /s/ Amanda Long
	Amanda Long
	Title: Chief Executive Officer (Principal Executive Officer)

<u>Exhibit 32.2</u>

Certification Pursuant to 18 U.S.C. SECTION 1350,
as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2023 of IigBear.ai Holdings, Inc. (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Julie Peffer, the Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that;

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 15, 2023	By: /s/ Julie Peffer
	Julie Peffer
	Title: Chief Financial Officer (Principal Financial Officer)