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

(Mark One)

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

For the quarterly period ended September 30, 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 001-39733

Redwire Corporation
(Exact name of registrant as specified in its charter)

Delaware	**98-1550429**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8226 Philips Highway, Suite 101 **Jacksonville, Florida**	**32256**
(Address of Principal Executive Offices)	(Zip Code)

(650) 701-7722
Registrant's telephone number, including area code

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, par value $0.0001 per share	RDW	New York Stock Exchange
Warrants, each to purchase one share of Common Stock	RDW 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 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 ☐

The registrant had outstanding 64,799,841 shares of common stock as of October 31, 2023.

REDWIRE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

SEPTEMBER 30, 2023

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PART I. FINANCIAL INFORMATION

Each of the terms the "Company," "Redwire," "we," "our," "us" and similar terms used herein refer collectively to Redwire Corporation, a Delaware corporation, and its consolidated subsidiaries, unless otherwise stated.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements that constitute "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, concerning us and other matters. These statements generally may be identified by words such as "anticipate," "forecast," "believe," "outlook," "trends," "goals," "contemplate," "continue," "could," "estimate," "expect," "intends," "may," "might," "plan," "possible," "potential," "predict," "project," "should," "will," "would" and similar expressions, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and/or cash flows, and our projects and related timelines. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict.

Redwire believes it is important to communicate its expectations to its security holders. However, there may be events in the future that Redwire's management is not able to predict accurately or over which Redwire has no control. The risk factors and cautionary language contained in this report, and other reports and documents filed by Redwire with the Securities and Exchange Commission (the "SEC"), provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described in such forward-looking statements, including among other things:

- our limited operating history makes it difficult to evaluate our future prospects and the risks and challenges we may encounter;
- our ability to grow our business depends on the successful development and continued refinement of many of our proprietary technologies, products, and service offerings;
- competition with existing or new companies could cause downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities, and the loss of market share;
- our projections of future financial results are based on a number of assumptions by our management, some or all of which may prove to be incorrect, and actual results may differ materially and adversely from such projections;
- if we are unable to successfully integrate recently completed and future acquisitions, including the recent acquisition of QinetiQ Space NV, or successfully select or execute future acquisitions into the business, our operations and financial condition could be materially and adversely affected;
- the issuance and sale of shares of our Series A Convertible Preferred Stock has reduced the relative voting power of holders of our common stock and diluted the ownership of holders of our capital stock;
- AE Industrial Partners and Bain Capital have significant influence over us, which could limit other investors' ability to influence the outcome of key transactions and/or strategic decisions;
- provisions in the Certificate of Designation related to our Series A Convertible Preferred Stock may delay or prevent our acquisition by a third party, which could also reduce the market price of our capital stock;
- our Series A Convertible Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to, the rights of holders of our other outstanding capital stock;
- there may be additional issuances or sales of a substantial amount of our common stock by our current stockholders, and these sales could cause the price of our common stock to fall;
- the issuance of the Series A Convertible Preferred Stock may impact the price and market for our common stock;
- we have been and may continue to be adversely affected by macroeconomic, business, and/or competitive factors, including inflationary and supply chain pressures as well as rising interest rates and market volatility;
- unsatisfactory performance of our products and services could have a material adverse effect on our business, financial condition and results of operations;
- the market for in-space infrastructure services is still emerging and may not achieve the growth potential that we expect or may grow more slowly than expected;
- we may in the future invest significant resources in developing new offerings and exploring the application of our technologies for other uses and those opportunities may never materialize;
- we may not be able to convert our orders in backlog into revenue;

- a portion of our business model is related to the in-space manufacture and robotic assembly of space structures, a technology that is still in development and has not been fully validated through in-space deployment and testing;
- we are reliant on third-party launch vehicles to launch our spacecraft and customer payloads into space;
- protecting and defending against intellectual property claims could have a material adverse effect on our business;
- cybersecurity or other data breaches or incidents involving technology or information systems could damage our business, reputation and brand and substantially harm our financial condition and results of operations;
- we are highly dependent on our senior management team and other highly skilled personnel, and if we are not successful in attracting or retaining highly qualified personnel, we may not be able to successfully implement our business strategy;
- we will incur significant expenses and capital expenditures in the future to execute our business plan and we may be unable to adequately control our expenses;
- our ability to successfully implement our business plan will depend on a number of factors outside of our control;
- we may not be able to successfully develop our technology and services;
- we may not be able to adapt to and satisfy customer demands in a timely and cost-effective manner;
- we may not be able to respond to commercial industry cycles in terms of cost structure, manufacturing capacity, and/or personnel needs;
- any delays in the development, design, engineering and manufacturing of our products and services may adversely affect our business, financial condition and results of operations;
- the benefits of our merger with Genesis Park Acquisition Corp. (the "Merger") may not be realized to the extent currently anticipated by us, or at all. The ability to recognize any such benefits from the Merger may be affected by, among other things, competition, our ability to grow and manage growth profitably, maintain relationships with customers and suppliers and retain our management and key employees;
- we are subject to the requirements of the National Industrial Security Program Operating Manual ("NISPOM") for our facility security clearance, which is a prerequisite to our ability to perform on classified contracts for the U.S. government;
- the U.S. government's budget deficit and the national debt, as well as any inability of the U.S. government to complete its budget process for any government fiscal year and consequently having to shut down or operate on funding levels equivalent to its prior fiscal year pursuant to a "continuing resolution," could have an adverse impact on our business, financial condition, results of operations and cash flows;
- we depend significantly on U.S. and European government contracts, which often are only partially funded, subject to immediate termination, and heavily regulated and audited;
- we are subject to stringent U.S. trade control laws and regulations as well as economic sanction laws and regulations;
- we have government customers, which subjects us to risks including early contract termination, audits, investigations, sanctions and penalties;
- we are exposed to additional risks as a result of our international business, including risks related to global security, geopolitical circumstances and economic factors, misconduct, suppliers, laws and regulations;
- if we fail to adequately protect our intellectual property rights, our competitive position could be impaired and our intellectual property applications for registration may not be issued or be registered;
- our management team has limited experience managing a public company;
- we have identified material weaknesses in our internal control over financial reporting that, if not remediated, may not allow us to report our financial condition or results of operations accurately or timely. Additionally, if we were to identify additional material weaknesses or other deficiencies, or otherwise fail to maintain effective internal control over financial reporting, we may not be able to accurately and timely report our financial results, in which case our business may be harmed and investors may lose confidence in the accuracy and completeness of our financial reports;
- we may be unable to meet or maintain stock exchange listing standards;
- we may require substantial additional funding to finance our operations, but adequate additional financing may not be available when we need it, on acceptable terms or at all;
- our level of debt places significant demands on our cash resources and the failure of financial institutions or transactional counterparties could adversely affect our current and projected business operations and our financial condition and results of operations;

- our operating results may fluctuate significantly, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations or any guidance that we may provide; and
- adverse publicity stemming from any incident involving Redwire or our competitors could have a material adverse effect on our business, financial condition and results of operations.

Undue reliance should not be placed on these forward-looking statements. The forward-looking statements contained in this Report are based on current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Item 1. Financial Statements and Supplementary Data

REDWIRE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands of U.S. dollars, except share data)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 10,859	$ 28,316
Accounts receivable, net	24,641	26,726
Contract assets	39,779	31,041
Inventory	1,687	1,469
Income tax receivable	688	688
Prepaid insurance	1,304	2,240
Prepaid expenses and other current assets	5,464	5,687
Total current assets	**84,422**	**96,167**
Property, plant and equipment, net of accumulated depreciation of $5,526 and $3,032, respectively	14,631	12,761
Right-of-use assets	14,041	13,103
Intangible assets, net of accumulated amortization of $16,612 and $11,247, respectively	62,969	66,871
Goodwill	64,413	64,618
Equity method investments	3,241	3,269
Other non-current assets	509	909
Total assets	**$ 244,226**	**$ 257,698**
Liabilities, Convertible Preferred Stock and Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 14,185	$ 17,584
Notes payable to sellers	—	1,000
Short-term debt, including current portion of long-term debt	1,976	2,578
Short-term operating lease liabilities	3,677	3,214
Short-term finance lease liabilities	364	299
Accrued expenses	37,678	36,581
Deferred revenue	27,059	29,817
Other current liabilities	2,310	3,666
Total current liabilities	**87,249**	**94,739**
Long-term debt, net	79,943	74,745
Long-term operating lease liabilities	13,118	12,670
Long-term finance lease liabilities	883	579
Warrant liabilities	3,789	1,314
Deferred tax liabilities	2,195	3,255
Other non-current liabilities	355	506
Total liabilities	**$ 187,532**	**$ 187,808**
Commitments and contingencies (Note J – Commitments and Contingencies)		

REDWIRE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands of U.S. dollars, except share data)

	September 30, 2023	December 31, 2022
Convertible preferred stock, $0.0001 par value, 88,000.00 shares authorized; 87,289.66 and 81,250.00 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively. Liquidation preference of $179,349 and $162,500 as of September 30, 2023 and December 31, 2022, respectively[1].	$ 85,395	$ 76,365
Shareholders' Equity (Deficit):		
Preferred stock, $0.0001 par value, 99,912,000 shares authorized; none issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized; 64,799,841 and 64,280,631 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	6	6
Treasury stock, 236,012 and 141,811 shares, at cost, as of September 30, 2023 and December 31, 2022, respectively	(629)	(381)
Additional paid-in capital	195,500	198,126
Accumulated deficit	(225,503)	(206,528)
Accumulated other comprehensive income (loss)	1,775	2,076
Total shareholders' equity (deficit)	**(28,851)**	**(6,701)**
Noncontrolling interests	150	226
Total equity (deficit)	**(28,701)**	**(6,475)**
Total liabilities, convertible preferred stock and equity (deficit)	**$ 244,226**	**$ 257,698**

[1] Please refer to Note K – Convertible Preferred Stock for additional information.

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

REDWIRE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands of U.S. dollars, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenues	$ 62,612	$ 37,249	$ 180,315	$ 106,844
Cost of sales	45,495	29,300	133,077	86,742
Gross margin	**17,117**	**7,949**	**47,238**	**20,102**
Operating expenses:				
Selling, general and administrative expenses	18,302	15,312	52,026	53,825
Transaction expenses	—	1,819	13	1,913
Impairment expense[1]	—	—	—	80,462
Research and development	1,532	1,133	3,990	4,565
Operating income (loss)	**(2,717)**	**(10,315)**	**(8,791)**	**(120,663)**
Interest expense, net	2,629	2,401	7,937	5,523
Other (income) expense, net	1,232	(158)	2,689	(14,493)
Income (loss) before income taxes	**(6,578)**	**(12,558)**	**(19,417)**	**(111,693)**
Income tax expense (benefit)	(253)	(2,135)	(369)	(6,949)
Net income (loss)	**(6,325)**	**(10,423)**	**(19,048)**	**(104,744)**
Net income (loss) attributable to noncontrolling interests	(72)	—	(73)	—
Net income (loss) attributable to Redwire Corporation	**(6,253)**	**(10,423)**	**(18,975)**	**(104,744)**
Less: dividends on Convertible Preferred Stock	2,874	—	12,040	—
Net income (loss) available to common shareholders	**$ (9,127)**	**$ (10,423)**	**$ (31,015)**	**$ (104,744)**
Net income (loss) per common share:				
Basic and diluted	$ (0.14)	$ (0.16)	$ (0.48)	$ (1.66)
Weighted-average shares outstanding:				
Basic and diluted	64,795,985	63,460,527	64,475,390	63,050,769
Comprehensive income (loss):				
Net income (loss) attributable to Redwire Corporation	$ (6,253)	$ (10,423)	$ (18,975)	$ (104,744)
Foreign currency translation gain (loss), net of tax	(860)	(177)	(304)	(663)
Total other comprehensive income (loss), net of tax	(860)	(177)	(304)	(663)
Total comprehensive income (loss)	**$ (7,113)**	**$ (10,600)**	**$ (19,279)**	**$ (105,407)**

[1] Please refer to Note O – Impairment Expense for additional information.

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

REDWIRE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(Unaudited)
(In thousands of U.S. dollars, except share data)

Three Months Ended September 30, 2023	**Common Stock**		**Treasury Stock**		**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholders' Equity (Deficit)**	**Noncontrolling Interests**	**Total Equity (Deficit)**
	Shares	**Amount**	**Shares**	**Amount**						
Balance as of June 30, 2023	**64,445,106**	**$ 6**	**141,811**	**$ (381)**	**$ 192,962**	**$ (219,250)**	**$ 2,629**	**$ (24,034)**	**$ 228**	**$ (23,806)**
Equity-based compensation expense	—	—	—	—	2,451	—	—	2,451	—	2,451
Common stock issued under the committed equity facility	27,948	—	—	—	87	—	—	87	—	87
Common stock issued for share-based awards	326,787	—	—	—	—	—	—	—	—	—
Shares repurchased for settlement of employee tax withholdings on share-based awards	—	—	94,201	(248)	—	—	—	(248)	—	(248)
Foreign currency translation, net of tax	—	—	—	—	—	—	(854)	(854)	(6)	(860)
Net loss	—	—	—	—	—	(6,253)	—	(6,253)	(72)	(6,325)
Balance as of September 30, 2023	**64,799,841**	**$ 6**	**236,012**	**$ (629)**	**$ 195,500**	**$ (225,503)**	**$ 1,775**	**$ (28,851)**	**$ 150**	**$ (28,701)**

Nine Months Ended September 30, 2023	**Common Stock**		**Treasury Stock**		**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholders' Equity (Deficit)**	**Noncontrolling Interests**	**Total Equity (Deficit)**
	Shares	**Amount**	**Shares**	**Amount**						
Balance as of December 31, 2022	**64,280,631**	**$ 6**	**141,811**	**$ (381)**	**$ 198,126**	**$ (206,528)**	**$ 2,076**	**$ (6,701)**	**$ 226**	**$ (6,475)**
Equity-based compensation expense	—	—	—	—	6,317	—	—	6,317	—	6,317
Common stock issued under the committed equity facility	27,948	—	—	—	87	—	—	87	—	87
Common stock issued for share-based awards	491,262	—	—	—	—	—	—	—	—	—
Shares repurchased for settlement of employee tax withholdings on share-based awards	—	—	94,201	(248)	—	—	—	(248)	—	(248)
Convertible preferred stock paid-in-kind dividend	—	—	—	—	(9,030)	—	—	(9,030)	—	(9,030)
Foreign currency translation, net of tax	—	—	—	—	—	—	(301)	(301)	(3)	(304)
Net loss	—	—	—	—	—	(18,975)	—	(18,975)	(73)	(19,048)
Balance as of September 30, 2023	**64,799,841**	**$ 6**	**236,012**	**$ (629)**	**$ 195,500**	**$ (225,503)**	**$ 1,775**	**$ (28,851)**	**$ 150**	**$ (28,701)**

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

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REDWIRE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(Unaudited)
(In thousands of U.S. dollars, except share data)

Three Months Ended September 30, 2022	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
Balance as of June 30, 2022	**63,253,836**	**$ 6**	**$ 191,707**	**$ (170,232)**	**$ (383)**	**$ 21,098**
Equity-based compensation expense	—	—	2,518	—	—	2,518
Common stock issued under the committed equity facility	598,854	—	1,787	—	—	1,787
Foreign currency translation, net of tax	—	—	—	—	(177)	(177)
Net loss	—	—	—	(10,423)	—	(10,423)
Balance as of September 30, 2022	**63,852,690**	**$ 6**	**$ 196,012**	**$ (180,655)**	**$ (560)**	**$ 14,803**

Nine Months Ended September 30, 2022	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
Balance as of December 31, 2021	**62,690,869**	**$ 6**	**$ 183,024**	**$ (75,911)**	**$ 103**	**$ 107,222**
Equity-based compensation expense	—	—	8,672	—	—	8,672
Common stock issued under the committed equity facility	909,669	—	3,047	—	—	3,047
Committed equity facility fee settled in common stock	127,751	—	756	—	—	756
Foreign currency translation, net of tax	—	—	—	—	(663)	(663)
Net loss	—	—	—	(104,744)	—	(104,744)
Other	124,401	—	513	—	—	513
Balance as of September 30, 2022	**63,852,690**	**$ 6**	**$ 196,012**	**$ (180,655)**	**$ (560)**	**$ 14,803**

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

REDWIRE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands of U.S. dollars)

	Nine Months Ended	
	September 30, 2023	**September 30, 2022**
Cash flows from operating activities:		
Net income (loss) attributable to Redwire Corporation	**$ (18,975)**	**$ (104,744)**
Net income (loss) attributable to noncontrolling interests	(73)	—
Net income (loss)	**(19,048)**	**(104,744)**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	7,971	8,836
Amortization of debt issuance costs and discount	448	345
Equity-based compensation expense	6,317	8,672
(Gain) loss on change in fair value of committed equity facility	179	231
(Gain) loss on change in fair value of warrants	2,475	(16,005)
Deferred provision (benefit) for income taxes	(1,012)	(6,964)
Impairment expense	—	80,462
Non-cash lease expense	248	229
Non-cash interest expense	525	270
Other	157	143
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,031	(283)
(Increase) decrease in contract assets	(9,008)	(4,590)
(Increase) decrease in inventory	(221)	(1,362)
(Increase) decrease in prepaid insurance	936	(227)
(Increase) decrease in prepaid expenses and other assets	255	(803)
Increase (decrease) in accounts payable and accrued expenses	(2,202)	6,793
Increase (decrease) in deferred revenue	(2,734)	1,714
Increase (decrease) in operating lease liabilities	(241)	—
Increase (decrease) in other liabilities	(979)	454
Increase (decrease) in notes payable to sellers	(557)	—
Net cash provided by (used in) operating activities	(14,460)	(26,829)
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(3,524)	(2,793)
Purchase of intangible assets	(1,690)	(639)
Net cash provided by (used in) investing activities	(5,214)	(3,432)
Cash flows from financing activities:		
Proceeds received from debt	23,696	19,696
Repayments of debt	(19,890)	(4,489)
Payment of debt issuance fees to third parties	—	(1,147)
Repayment of finance leases	(282)	—
Proceeds from issuance of common stock	84	2,956
Payment of committed equity facility transaction costs	(571)	(161)
Payments of issuance costs related to convertible preferred stock	(52)	—
Shares repurchased for settlement of employee tax withholdings on share-based awards	(248)	—
Payment of contingent earnout	(443)	—
Net cash provided by (used in) financing activities	2,294	16,855
Effect of foreign currency rate changes on cash and cash equivalents	(77)	(86)
Net increase (decrease) in cash and cash equivalents	(17,457)	(13,492)
Cash and cash equivalents at beginning of period	28,316	20,523
Cash and cash equivalents at end of period	**$ 10,859**	**$ 7,031**

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

Note A – Description of the Business

Redwire Corporation (the "Company") develops and manufactures mission critical space solutions and high reliability components for the next generation space economy, with valuable intellectual property for solar power generation, in-space 3D printing and manufacturing, avionics, critical components, sensors, digital engineering and space-based biotechnology. The Company serves both U.S. and international customers with products and services that have civil space, national security and commercial applications, with principal customers being agencies of the U.S. and European governments.

The Company's wholly-owned subsidiary, Space NV, participates in a joint venture operation with SES Techcom S.A. for the purpose of performing maintenance and operations services ("M&O Services") to the European Space Agency ("ESA"), among others. Pursuant to a shareholders agreement dated June 28, 2007, this joint venture was created under the form of two companies: Redu Space Service SA/NV ("RSS") and Redu Operations Services SA/NV ("ROS"), both of which are organized under Belgian law. Please refer to Note Q – Joint Venture for additional information.

Note B – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial statement information and the rules of the SEC. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The unaudited condensed consolidated balance sheet as of December 31, 2022 was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting of adjustments associated with acquisition accounting and normal recurring adjustments, necessary for the fair presentation of such financial statements. All intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements should be read in conjunction with the information contained in the Company's 2022 Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 31, 2023. Interim results are not necessarily indicative of the results that may be expected for a full year.

The Company consolidates all entities that are controlled by ownership of a majority voting interest. Additionally, there are situations in which consolidation is required even though the usual condition of consolidation does not apply. Generally, this occurs when an entity holds an interest in another business entity that was achieved through arrangements that do not involve voting interests, which results in a disproportionate relationship between such entity's voting interests in, and its exposure to the economic risks and potential rewards of, the other business entity. This disproportionate relationship results in what is known as a variable interest, and the entity in which the Company has the variable interest is referred to as a Variable Interest Entity ("VIE"). An entity must consolidate a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Please refer to Note Q – Joint Venture for additional information.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Management has prepared the estimates using the most current and best available information that are considered reasonable under the circumstances. However, actual results could differ materially from those estimates. Accounting policies subject to estimates include, but are not limited to, valuation of goodwill and intangible assets, contingent consideration, revenue recognition, income taxes, certain equity-based compensation awards, post-retirement benefit plans, paid-in-kind dividends, and warrant liabilities.

Segment Information

Operating segments are defined as components of an entity for which separate financial information is available and that are 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. The Company has concluded that it operates in one operating segment and one reportable segment, space infrastructure, as the CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

Foreign Currency Translation

The Company’s condensed consolidated financial statements are presented in United States dollars (“USD”), which is the functional currency of the Company. The local currency of our operations in Luxembourg and Belgium, the Euro, is considered to be the functional currency of those operations. Assets and liabilities of the Company's foreign subsidiaries, where the functional currency is the local currency, are translated into USD at exchange rates effective as of the balance sheet date. Revenues and expenses are translated using average exchange rates in effect for the periods presented.

Balance sheet translation adjustments are reported in accumulated other comprehensive income (loss). Realized gains and losses on foreign currency transactions are included in other (income) expense, net on the condensed consolidated statements of operations and comprehensive income (loss).

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, cash balances with banks and similar institutions and all highly liquid investments with an original maturity of three months or less.

The table below presents supplemental cash flow information during the following periods:

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Supplemental cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 7,132	$ 4,421
Non-Cash Investing and Financing Activities:		
Convertible Preferred Stock dividend paid-in-kind	$ 9,030	$ —
Capital expenditures not yet paid	1,473	1,242
Equity financing transaction costs not yet paid	—	571

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 registration statement declared effective under the Securities Act of 1933, as amended, or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended, (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 June 2016, the Financial Accounting Standards Boards (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments–Credit Losses* (Topic 326), an amendment of the FASB Accounting Standards Codification (“ASC”). Subsequent to the issuance of ASU 2016-13, there were various updates that amended and clarified the impact of ASU 2016-13. ASU 2016-13 broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The amendments in ASU 2016-13 require an entity to record an allowance for credit losses for certain financial instruments and financial assets, including accounts receivable, based on expected losses rather than incurred losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The use of forecasted information incorporates more timely information in the estimate of expected credit losses. Effective January 1, 2023, the Company adopted ASU 2016-13 using a modified retrospective transition method with a cumulative effect adjustment in the period of adoption. Adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

In January 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* Subsequent to the issuance of ASU 2020-04, there were various updates that amended and clarified the impact of ASU 2020-04, including an update in December 2022, which deferred the sunset date in Topic 848 from December 31, 2022 to December 31, 2024. ASU 2020-04 provides temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by "reference rate reform" if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at modification date or reassess a previous accounting determination. The amendments in this ASU apply to all entities (subject to meeting certain criteria) that have contracts, hedging relationships, or other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The Company has elected the temporary expedients and exceptions afforded to entities with contract modifications affected by reference rate reform. The impact did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

Note C – Business Combinations

QinetiQ Space NV Acquisition

On October 31, 2022, the Company acquired 100% of the equity interests in QinetiQ Space NV ("Space NV") for $36.9 million (€37 million) in cash. The acquisition supports the Company's growth in its offering of satellite technologies, berthing and docking equipment, space instruments and advanced payloads, as well as expanded its global footprint.

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.

	October 31, 2022
Cash paid	$ 36,930
Less: Note receivable from seller	501
Purchase consideration	$ 36,429
Assets:	
Cash	$ 3,700
Accounts receivable and other receivable	3,606
Contract assets	18,830
Prepaid expenses and other current assets	3,100
Property, plant and equipment	5,656
Right-of-use assets	1,166
Intangible assets	13,935
Equity method investments	3,000
Total assets	52,993
Liabilities:	
Accounts payable	4,201
Short-term operating lease liabilities	199
Short-term finance lease liabilities	279
Accrued expenses	18,636
Deferred revenue	5,513
Other current liabilities	399
Long-term operating lease liabilities	908
Long-term finance lease liabilities	563
Deferred tax liabilities	2,727

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

	October 31, 2022
Other non-current liabilities	281
Total liabilities	33,706
Fair value of net identifiable assets acquired	19,287
Less: Fair value of noncontrolling interests in ROS	215
Goodwill	$ 17,357

The following table summarizes the intangible assets acquired by class:

	October 31, 2022	Weighted average useful life in years
Technology	$ 4,700	7
Customer relationships	7,400	30
Software	235	2
IPR&D	1,600	
Total intangible assets	$ 13,935	

The amounts above represent the current preliminary fair value estimates. During the nine months ended September 30, 2023, the Company recorded animmaterial measurement period adjustment to various assets and liabilities, which increased the balance of goodwill to $17.4 million as of September 30, 2023. The above amounts are preliminary and could be revised as a result of additional information obtained regarding the assets acquired and liabilities assumed, including, but not limited to, certain working capital items and residual goodwill. Finalization of the valuation during the measurement period could result in a change in the amounts recorded for the acquisition date fair value of the assets and liabilities. The completion of the valuation will occur no later than one year from the acquisition date.

The fair value of the acquired technology and IPR&D was estimated using the relief from royalty (“RFR”) method. The fair value of the acquired customer relationships was estimated using the excess earnings method. The fair value of the acquired investment in RSS was estimated using the guideline public company method.

The acquisition was accounted for as a business combination, whereby the excess of the consideration paid 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 is not deductible.

Pro Forma Financial Data (Unaudited)

The table below presents the pro forma combined results of operations for the business combinations for the three and nine months ended September 30, 2022 as though the acquisition of Space NV had been completed as of January 1, 2021.

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Revenues	$ 51,084	$ 148,227
Net income (loss) attributable to Redwire Corporation	(10,227)	(103,639)

The amounts included in the pro forma information are based on the historical results and do not necessarily represent what would have occurred if the Space NV acquisition 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 business combination occurred as of the date indicated or that may be achieved in the future.

The Company incurred nominal costs during the three and nine months ended September 30, 2023 and 2022, respectively, related to completed acquisitions as of the respective periods. Costs incurred in 2023 related to completed acquisitions were primarily attributable to the Space NV, Techshot and Roccor acquisitions, while such costs incurred in 2022 were attributable to the Techshot acquisition. These expenses are included in transaction expenses on the condensed consolidated statements of operations and comprehensive income (loss) and are also reflected in the pro forma results for the periods presented in the table above.

Note D – Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, inventories, prepaid expenses and other current assets, accounts payable, accrued expenses and current liabilities are reflected on the condensed consolidated balance sheets at amounts that approximate fair value because of the short-term nature of these financial assets and liabilities.

The fair value of the Company's debt approximates its carrying value and is classified as Level 2 within the fair value hierarchy as it is based on discounted cash flows using a current borrowing rate.

Contingent Consideration

As of December 31, 2022, contingent consideration consisted of estimated future payments related to the Company's acquisition of Roccor in October 2020. As certain inputs are not observable in the market, contingent consideration payments are classified as Level 3 instruments and included in notes payable to sellers on the condensed consolidated balance sheets. Significant changes in the significant unobservable inputs used in the Black-Scholes Option Pricing Model ("OPM") to determine the fair value of contingent consideration would result in a significantly lower or higher fair value measurement. The Company adjusts the previous fair value estimate of contingent consideration at each reporting period based on changes in forecasted financial performance and overall risk as well as the period of time elapsed.

The purchase agreement with the sellers of Roccor awarded such sellers with a contingent right to an earnout payment from the Company upon the achievement of certain revenue milestones for the year ended December 31, 2021. The earnout amount is determined based on one of the following: (i) $0 if Roccor revenue for the year ended December 31, 2021 is less than $30.0 million, (ii) $1.0 million if Roccor revenue for the year ended December 31, 2021 is equal to or greater than $30.0 million but less than $40.0 million, (iii) $2.0 million if Roccor revenue for the year ended December 31, 2021 is equal to or greater than $40.0 million.

In January 2023, the Company paid the contingent earnout to the Roccor sellers in the amount of $1.0 million in accordance with the purchase agreement. As of September 30, 2023, there was no additional contingent consideration payable to the Roccor sellers.

Committed Equity Facility

On April 14, 2022, the Company entered into the Purchase Agreement and a Registration Rights Agreement with B. Riley. Pursuant to the Purchase Agreement, the Company has the right, but not the obligation, to direct B. Riley to purchase a specified amount of shares (each, a "Purchase") over the 24-month period from Commencement (as defined in the Purchase Agreement). Shares issued to B. Riley under the Purchase Agreement cannot exceed 19.99% of the shares outstanding prior to the execution of the Purchase Agreement. In addition, the number of shares eligible to be purchased by B. Riley in a single Purchase may not exceed the lesser of (i) 50% of the Purchase Volume Reference Amount, defined as the total aggregate volume of the Company's shares traded on the NYSE during ten consecutive trading days prior to the Purchase date divided by ten, and (ii) 20% of the total number of the Company's shares traded on the NYSE during the intraday purchase period, which is determined by the trading day on which B. Riley receives a valid purchase notice from the Company.

Pursuant to a Registration Rights Agreement entered into with B. Riley, the Company filed a registration statement on Form S-1 with the SEC on April 22, 2022, which registered an initial 9,000,000 shares of common stock to permit the subsequent resale of shares purchased under the committed equity facility.

The Company controls the timing and amount of any sales to B. Riley, which depend on a variety of factors including, among other things, market conditions, the trading price of the Company's common stock, and determinations by the Company as to appropriate sources of funding for its business and operations. However, B. Riley's obligation to purchase shares is subject to certain conditions. In all instances, the Company may not sell shares of its common stock under the Purchase Agreement if it would result in B. Riley beneficially owning more than 4.99% of its common stock at any one point in time.

At inception, the Company evaluated the Purchase Agreement with B. Riley and determined that the committed equity facility was not indexed to the Company's own common stock and, therefore, measures the derivative asset at fair value based on the consideration transferred to B. Riley in exchange for its irrevocable commitment to purchase up to $80.0 million in shares of the Company's common stock. Subsequent changes in the fair value of the derivative asset are dependent upon, among other things, changes in the closing share price of the Company's common stock, the quantity and purchase price of shares purchased by B. Riley during the reporting period, the unused capacity under the committed equity facility as of the balance sheet date and the cost of raising other forms of capital. As certain inputs are not observable in the market, the derivative asset is classified as a Level 3 instrument within the fair value hierarchy. The Company adjusts the previous fair value estimate of the committed equity facility at each reporting period based on changes in the weighted average purchase price of shares purchased by B. Riley during the period, the unused capacity available under the committed equity facility, expected stock price volatility and other macroeconomic factors which impact the cost of raising comparable forms of capital.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

Pursuant to the Purchase Agreement, the purchase price for each share of common stock is equal to 97% of the volume weighted average price ("VWAP") on the applicable purchase date, which results in a 3% fee on the purchase of the Company's common stock. During the three and nine months ended September 30, 2023, the Company sold 27,948 shares to B. Riley for proceeds of $0.1 million, respectively. The VWAP of shares purchased by B. Riley was $3.12 per share during the three and nine months ended September 30, 2023, respectively.

Based on the September 30, 2023 closing price of $2.89 per share and registered shares available for purchase under the committed equity facility of 8,062,383, the Company had $23.3 million of unused capacity under the committed equity facility as of September 30, 2023.

Private Warrants

In September 2021, the Company issued 7,732,168 private warrants in a transaction exempt from registration under securities regulations. The warrants, which are not listed for trading on a stock exchange, entitle the holder to purchase one share of the Company's common stock at an exercise price of $11.50 per share, subject to adjustment. The warrants will expire on September 2, 2026, at 5:00 p.m., New York City time, or earlier upon redemption or liquidation. The private warrants were established as a liability at issuance. Classification of the private warrants as liability instruments was based on an analysis of the guidance in accordance with U.S. GAAP and in a statement issued by the Staff of the SEC regarding the accounting and reporting considerations for warrants issued by special purpose acquisition companies entitled "Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies." The Company considered whether the private warrants display the three characteristics of a derivative, and concluded the private warrants meet the definition of a derivative. However, the private warrants fail to meet the equity scope exception and thus are classified as a liability measured at fair value, subject to remeasurement at each reporting period. The changes in fair value of the private warrant liability were an increase of $0.5 million and a decrease of $0.9 million for the three months ended September 30, 2023 and 2022, respectively, and an increase of $2.5 million and a decrease of $16.0 million for the nine months ended September 30, 2023 and 2022, respectively. These changes in fair value are recognized as other (income) expense, net in the condensed consolidated statements of operations and comprehensive income (loss).

The private warrants were valued using a modified Black-Scholes OPM. As certain inputs are not observable in the market, the private warrants are classified as Level 3 instruments within the fair value hierarchy. The table below presents the fair value per warrant and the valuation assumptions under the Black-Scholes OPM:

	September 30, 2023	December 31, 2022
Fair value per share	$ 0.49	$ 0.17
Warrants outstanding	7,732,168	7,732,168
Exercise price	$ 11.50	$ 11.50
Common stock price	$ 2.89	$ 1.98
Expected option term	2.92 years	3.67 years
Expected volatility	72.60 %	60.70 %
Risk-free rate of return	4.80 %	4.10 %
Expected annual dividend yield	— %	— %

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

The table below presents the Company's financial instruments measured at fair value on a recurring basis:

		September 30, 2023			
	Balance Sheet Location	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:					
Committed equity facility	Prepaid expenses and other current assets	$ —	$ —	$ 40	$ 40
Total assets		$ —	$ —	$ 40	$ 40
Liabilities:					
Private warrants	Warrant liabilities	$ —	$ —	$ 3,789	$ 3,789
Contingent consideration	Notes payable to sellers	—	—	—	—
Total liabilities		$ —	$ —	$ 3,789	$ 3,789

		December 31, 2022			
	Balance Sheet Location	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:					
Committed equity facility	Other non-current assets	$ —	$ —	$ 216	$ 216
Total assets		$ —	$ —	$ 216	$ 216
Liabilities:					
Private warrants	Warrant liabilities	$ —	$ —	$ 1,314	$ 1,314
Contingent consideration	Notes payable to sellers	—	—	1,000	1,000
Total liabilities		$ —	$ —	$ 2,314	$ 2,314

Changes in the fair value of Level 3 financial assets and liabilities were as follows:

Assets:	**Committed Equity Facility**	**Total Level 3**
December 31, 2022	$ 216	$ 216
Changes in fair value	(176)	(176)
Settlements	—	—
September 30, 2023	$ 40	$ 40

Liabilities:	**Contingent Consideration**	**Private Warrants**	**Total Level 3**
December 31, 2022	$ 1,000	$ 1,314	$ 2,314
Additions	—	—	—
Changes in fair value	—	2,475	2,475
Settlements	(1,000)	—	(1,000)
September 30, 2023	$ —	$ 3,789	$ 3,789

Note E – Accounts Receivable, net

The accounts receivable, net balance was as follows:

	September 30, 2023	**December 31, 2022**
Billed receivables	$ 24,405	$ 25,518
Unbilled receivables	236	1,208
Total accounts receivable, net	$ 24,641	$ 26,726

Accounts receivable are recorded for amounts to which the Company is entitled and has invoiced to the customer. Unbilled receivables, presented in the table above, consist of unbilled amounts under time and materials contracts where billing and payment is subject solely to the passage of time.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

Substantially all accounts receivable as of September 30, 2023 are expected to be collected in 2023. The Company does not believe there is a significant exposure to credit risk as the majority of the Company's accounts receivable are due from U.S. and foreign governments or large prime contractors of such government entities. As a result, the change in the allowance for credit losses was not material during the nine months ended September 30, 2023.

Note F – Inventory

The inventory balance was as follows:

	September 30, 2023	December 31, 2022
Raw materials	$ 1,434	$ 995
Work in process	253	474
Inventory	$ 1,687	$ 1,469

Note G – Debt

The table below presents details of the Company's debt as of the following periods and the effective interest rate as of September 30, 2023:

	Effective interest rate	September 30, 2023	December 31, 2022
Adams Street Term Loan	12.25 %	$ 30,600	$ 30,626
Adams Street Revolving Credit Facility	16.35	5,000	—
Adams Street Delayed Draw Term Loan	12.25	14,806	14,819
Adams Street Incremental Term Loan	12.15	31,668	31,695
D&O Financing Loans	2.17	1,196	1,798
Total debt		83,270	78,938
Less: unamortized discounts and issuance costs		1,351	1,615
Total debt, net		81,919	77,323
Less: Short-term debt, including current portion of long-term debt		1,976	2,578
Total long-term debt, net		$ 79,943	$ 74,745

Adams Street Capital Credit Agreement

On October 28, 2020, the Company entered into a credit agreement with Adams Street Capital (the "Adams Street Credit Agreement"), the terms of which were subsequently modified by various amendments through September 30, 2023. As amended, the Adams Street Credit Agreement includes (i) a $ 31.0 million term loan commitment, (ii) a $15.0 million delayed draw term loan, (iii) a $32.0 million incremental term loan, and (iv) a $25.0 million revolving credit facility commitment, all of which mature on October 28, 2026. During the three and nine months ended September 30, 2023, the Company borrowed $11.0 million and $22.5 million, respectively, and repaid $6.0 million and $17.5 million, respectively, on the revolving credit facility. As of September 30, 2023, the Company had $5.0 million of borrowings outstanding under the Company's revolving credit facility and the remaining capacity was $20.0 million.

As of September 30, 2023, the outstanding principal on the Adams Street Credit Agreement incurs cash interest in accordance with the prime rate plus the applicable rates as set forth in the table below:

	Eurocurrency Rate	Base Rate
Term loans	6.00 %	5.00 %
Revolving credit facility:		
Aggregate principal of $5.0 million or less	6.00	5.00
Aggregate principal in excess of $5.0 million	7.50	6.50

As amended in August 2022, the outstanding principal on the term loans and revolving loans under the Adams Street Credit Agreement incurs additional interest to be paid-in-kind ("PIK") of 2.00% per annum, which is accrued and added to the outstanding principal balance until the Company is in compliance with the consolidated total net leverage ratio. The requirement to comply with the consolidated total net leverage ratio was suspended through September 30, 2023, and such compliance resumes with the fiscal quarter ending December 31, 2023. In addition, the Company is required to maintain a minimum liquidity covenant of $5.0 million measured on the last day of each fiscal month commencing with the month ending September 30, 2022 through September 30, 2023. During the second quarter of 2023, in accordance with the provisions of the Adams Street Credit Agreement, as amended, the Company met certain requirements to end the incremental 2.00% per annum PIK interest, effective May 1, 2023. The previously suspended requirement to comply with the consolidated total net leverage ratio as discussed above, remains in effect as of September 30, 2023.

There was no accrued PIK interest on the Adams Street Credit Agreement during the three months ended September 30, 2023 and $0.5 million during the nine months ended September 30, 2023, respectively. During the three and nine months ended September 30, 2022, total accrued PIK interest on the Adams Street Credit Agreement was $0.3 million, respectively.

Additionally, in June 2023, the Company entered into the Sixth Amendment to the Adams Street Credit Agreement, in which the LIBOR-based interest rate applicable to borrowings under the Adams Street Credit Agreement was replaced with a SOFR-based interest rate in advance of the cessation of LIBOR which occurred on June 30, 2023.

The Adams Street Capital Credit Agreement, as amended, contains certain customary representations and warranties, affirmative and other covenants and events of default, including among other things, payment defaults, breach of representations and warranties, and covenant defaults.

As of September 30, 2023 and December 31, 2022, the Company was in compliance with its covenant requirements, as amended.

D&O Financing Loan

On September 3, 2021, the Company entered into a $3.0 million loan (the "2021 D&O Financing Loan") with BankDirect Capital Finance to finance the Company's directors and officers insurance premium. The 2021 D&O Financing Loan had an interest rate of 1.74% per annum and a maturity date of May 3, 2022. In May 2022, the Company repaid the full outstanding principal and interest on the 2021 D&O Financing Loan.

On September 3, 2022, the Company entered into a $2.7 million loan with AFCO Credit Corporation (the "2022 D&O Financing Loan") to finance the Company's directors and officers insurance premium. The 2022 D&O Financing Loan had an interest rate of 4.59% per annum and a maturity date of June 3, 2023. In June 2023, the Company repaid the full outstanding principal and interest on the 2022 D&O Financing Loan.

On September 3, 2023, the Company entered into a $1.2 million loan with AFCO Credit Corporation (the "2023 D&O Financing Loan") to finance the Company's directors and officers insurance premium. The 2023 D&O Financing Loan has an interest rate of 7.39% per annum and a maturity date of March 3, 2024.

Note H – Leases

The Company has entered into and acquired long-term leasing arrangements for the right to use various classes of underlying assets including facilities, vehicles and office equipment.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

Total Lease Costs

The table below summarizes total lease costs for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Finance lease cost:				
Amortization of ROU assets	$ 119	$ —	$ 311	$ —
Interest on lease liabilities	27	—	71	—
Operating lease costs	1,153	874	3,146	2,350
Variable lease costs	6	—	17	—
Short-term lease costs	—	55	90	227
Total lease costs	$ 1,305	$ 929	$ 3,635	$ 2,577

Total lease costs are included in selling, general and administrative expenses and cost of sales on the condensed consolidated statements of operations and comprehensive income (loss).

Other Supplemental Information

The table below presents other supplemental information related to the Company's leases for the following periods:

	Three Months Ended			
	September 30, 2023		September 30, 2022	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Cash paid for lease liabilities	$ 1,070	$ 133	$ 825	$ —
Right-of-use assets obtained in exchange for new lease liabilities	84	275	3,739	—

	Nine Months Ended			
	September 30, 2023		September 30, 2022	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Cash paid for lease liabilities	$ 3,130	$ 351	$ 2,112	$ —
Right-of-use assets obtained in exchange for new lease liabilities	3,418	726	7,368	—

	September 30, 2023		September 30, 2022	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Weighted average remaining lease term (in years)	4.6	3.7	2.9	0.0
Weighted average discount rate	6.4 %	8.6 %	5.2 %	— %

Note I – Income Taxes

The table below presents the Company's effective income tax rate on pre-tax income from continuing operations for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Effective tax rate	3.8 %	17.0 %	1.9 %	6.2 %

The effective tax rate was 3.8% and 17.0% for the three months ended September 30, 2023 and 2022, respectively, and 1.9% and 6.2% for the nine months ended September 30, 2023 and 2022, respectively. The difference in effective tax rate between periods was primarily related to an increase in the valuation allowance during the three and nine months ended September 30, 2023.

The effective tax rate for the three and nine months ended September 30, 2023 differs from the U.S. federal income tax rate of 21.0% primarily due to the valuation allowance on the realization of deferred tax assets. The effective tax rate for the three and nine months ended September 30, 2022 differs from the U.S. federal income tax rate of 21.0% primarily due to nondeductible compensation costs on the Class P Unit Incentive plan, the valuation of warrants, nondeductible impairment, and a valuation allowance on the realization of the deferred tax assets.

The Company assesses the deferred tax assets for recoverability on a quarterly basis. In assessing the realizability of deferred tax assets, the Company considers whether it is more-likely-than-not that some or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which the net operating loss ("NOL") carryforwards are available. For the nine months ended September 30, 2023, the Company concluded that it is more-likely-than-not that substantially all of its deferred tax assets will not be realized and established a full valuation allowance, whereas the Company concluded that a portion of its deferred tax assets are more-likely-than-not realizable for the nine months ended September 30, 2022. The change from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 was driven by the additional amount of deferred tax assets expected to be generated on taxable losses, which resulted in an increase to the valuation allowance.

Note J – 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 it and intends to defend itself vigorously. Excluding pending matters disclosed below, the outcome of these matters, individually and in the aggregate, is not expected to have a material impact on the Company's condensed consolidated financial statements.

On November 5, 2021, the Company was notified of potential accounting issues with a business unit by an employee in connection with his resignation. After completing an investigation, the Audit Committee concluded that the potential issues raised by the former employee did not require a restatement or adjustment of the Company's previously issued consolidated financial statements relating to any prior periods. The Company self-reported this matter to the SEC on November 8, 2021 and on August 1, 2023, the SEC notified the Company's counsel that this matter is closed.

On December 17, 2021, the Company, our CEO, Peter Cannito, and our former CFO, William Read, were named as defendants in a putative class action complaint filed in the United States District Court for the Middle District of Florida. That litigation is captioned *Lemen v. Redwire Corp. et al.,* Case No. 3:21-cv-01254-TJC-PDB (M.D. Fla.). On March 7, 2022, the Court appointed a lead plaintiff. On June 17, 2022, the lead plaintiff filed an amended complaint. In the amended complaint, the lead plaintiff alleges that the Company and certain of its directors and officers made misleading statements and/or failed to disclose material facts about the Company's business, operations, and prospects, allegedly in violation of Section 10(b) (and Rule 10b-5 promulgated thereunder) and Section 20(a) of the Exchange Act. As relief, the plaintiffs are seeking, among other things, compensatory damages. The defendants believe the allegations are without merit and intend to defend the suit vigorously. On August 16, 2022, the defendants moved to dismiss the complaint in its entirety, and such motion was denied by the Court on March 22, 2023. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On May 25, 2022, a plaintiff commenced derivative litigation in the United States District Court for the District of Delaware on behalf of the Company against Peter Cannito, Les Daniels, Reggie Brothers, Joanne Isham, Kirk Konert, Jonathan Baliff, and John S. Bolton. That litigation is captioned *Yingling v. Cannito, et al.,* Case No. 1:22-cv-00684-MN (D. Del.). The complaint's allegations are similar to those of the class action lawsuit filed in December 2021, namely, that statements about Redwire's business and operations were misleading due to alleged material weaknesses in the Company's financial reporting internal controls. The plaintiff alleges the defendants violated Section 10(b) (and Rule 10b-5 promulgated thereunder) and Section 20(a) of the Exchange Act, breached their fiduciary duty by allowing misleading disclosures to be made, and caused the Company to overpay compensation and bonuses tied to the Company's financial performance. As relief, the plaintiffs are seeking, among other things, compensatory and punitive damages. This litigation has been stayed until the earlier of: (i) fifteen (15) days following the issuance of a decision resolving a motion for summary judgment in or public disclosure of a potential settlement of the class action lawsuit filed on December 17, 2021, or (ii) twenty (20) days following notice by either party of another pending derivative action and where the continuance of such stay may or will prejudice the noticing party's rights. The defendants believe the allegations are without merit and intend to defend the lawsuit vigorously. However, a reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

On January 23, 2023, the Company received a Civil Investigative Demand from the antitrust division of the U.S. Department of Justice ("DOJ") regarding potential violations of Section 1 of the Sherman Act and Section 8 of the Clayton Act. On September 29, 2023, the DOJ notified the Company's counsel that this matter is closed.

Business Combinations

The Company has acquired and plans to continue to acquire businesses with prior operating histories. These acquisitions may have unknown or contingent liabilities, which the Company may become responsible for and could have a material impact on the Company's future operating results and cash flows. In addition, the Company may incur acquisition costs, regardless of whether or not the acquisition is ultimately completed, which may be material to future periods.

Commitments

As of September 30, 2023, the Company entered into an economic development agreement to serve as the anchor tenant at the Novaparke Innovation & Technology Campus in Floyd County, Indiana. In accordance with the agreement, the Company has committed to enter into a lease for a 30,000 square foot property upon completion of construction, thus creating a significant future lease obligation. Construction is not anticipated to be complete until fiscal year 2024, at which time the Company will enter into the associated lease agreement.

Note K – Convertible Preferred Stock

The table below presents activity of the Company's Convertible Preferred Stock:

	Shares	Amount
Balance as of December 31, 2022	**81,250.00**	**$ 76,365**
Dividend paid-in-kind	6,039.66	9,030
Balance as of September 30, 2023	**87,289.66**	**$ 85,395**

On October 28, 2022, the Company filed a Certificate of Designation describing the terms and conditions of newly issued Series A convertible preferred stock of the Company, par value 0.0001 (the "Convertible Preferred Stock"), with 88,000.00 total shares constituting the series. On or around the same date, the Company entered into investment agreements with (i) AE Industrial Partners Fund II, LP ("AEI Fund II") and AE Industrial Partners Structured Solutions I, LP ("AEI Structured Solutions", and together with AEI Fund II, ("AEI")), (ii) BCC Redwire Aggregator, LP ("Bain Capital") and (iii) various investors (collectively, the "Additional Investors," and together with AEI and Bain Capital, the "Investors"). Pursuant to the investment agreements, the Company sold an aggregate of 81,250.00 shares ("Purchased Shares") of Convertible Preferred Stock for an aggregate purchase price of $81.25 million, or $76.4 million net of issuance costs.

On May 1, 2023, in accordance with the Convertible Preferred Stock Certificate of Designation, the Company issued 6,039.66 shares of Series A Convertible Preferred Stock to holders of record as of April 15, 2023 as a dividend paid-in-kind ("PIK") on the Convertible Preferred Stock. As the Company has the option of paying dividends on the Convertible Preferred Stock in either cash or in kind, the PIK dividend is recorded at fair value as of the declaration, April 15, 2023. The fair value of the PIK dividend was $9.0 million, which was recorded against additional paid-in-capital since the Company has an accumulated loss. The fair value of the PIK dividend was calculated using the accrued value per share after a remaining term of 2.5 years on an as-converted basis, or $1,495 per share.

The investment agreements contain customary representations, warranties and covenants of the Company and Investors.

Bain Capital Director and Nominees

For so long as Bain Capital has record and beneficial ownership of at least 50% of the Purchased Shares issued to it as of November 3, 2022, Bain Capital will have the right to designate one member to the Board of Directors of the Company.

Convertible Preferred Stock Features

No holder of Convertible Preferred Stock may transfer any of their shares to any unaffiliated person for twelve (12) months following the closing date of the applicable investment agreement, except for certain exceptions, including that Bain Capital and AEI may transfer shares to each other. Bain Capital and AEI have been provided customary preemptive rights with respect to the Convertible Preferred Stock and, after the seventh anniversary of their respective closing dates, for so long as each holder has record and beneficial ownership of at least 50% of the Purchased Shares initially issued to them, may cause the Company to retain an investment banker to identify and conduct a potential sale of the Company.

The Convertible Preferred Stock is convertible into shares of common stock at an initial conversion price of $3.05 per share, subject to customary anti-dilution and price protective adjustments.

The Company previously obtained the requisite shareholder approval for the conversion of the Convertible Preferred Stock into common stock above the 19.99% Limitation (as defined below). On June 20, 2023, the Company filed with the SEC a Schedule 14C information statement pursuant to Section 14(c) of the Exchange Act, which provided notice of the approval of, (i) the conversion of the Convertible Preferred Stock into shares of common stock in excess of 19.99% of the 63,852,690 shares outstanding as of October 28, 2022 immediately after giving effect to such conversion (the "Conversion Cap") and (ii) voting rights of the aggregate number of votes to which all holders of outstanding shares of Convertible Preferred Stock are entitled to vote in excess of 19.99% of the aggregate number of votes to which all shareholders of the Company were entitled to vote as of October 28, 2022 (including the holders of shares of Preferred Stock) (the "Voting Cap" and, together with the Conversion Cap, the "19.99% Limitation").

As of September 30, 2023, the 87,289.66 outstanding shares of Convertible Preferred Stock were convertible into approximately 30,183,354 shares of the Company's common stock. The holders of Convertible Preferred Stock are entitled to vote with the holders of common stock, on an as-converted basis. In addition, holders of Convertible Preferred Stock have the right, at their option and at any time, to convert their shares into shares of common stock. Each share of Convertible Preferred Stock will mandatorily convert upon achieving thresholds related to the Company's market capitalization and profitability metrics and the Company is required to make an offer to repurchase the outstanding Convertible Preferred Stock upon a fundamental change.

Dividends on the Convertible Preferred Stock can be paid in either cash or in kind in the form of additional shares of Convertible Preferred Stock, at the option of the Company, subject to certain exceptions. If paid in cash, such dividends will be paid at a rate of 13% per annum, subject to certain adjustments and exceptions or, if the Company issues PIK dividends, at a rate of 15% per annum, subject to certain adjustments and exceptions. Each holder of Convertible Preferred Stock has been given certain registration rights pursuant to the Registration Rights Agreement, dated October 28, 2022. As of September 30, 2023, the accumulated but not declared or paid dividends on the Convertible Preferred Stock were $4.8 million.

Based on an evaluation of the investment agreements, the Company determined that the Convertible Preferred Stock is contingently or optionally redeemable and, therefore, does not require liability classification under ASC 480, *Distinguishing Liabilities from Equity*.
However, due to the Convertible Preferred Stock being redeemable at the option of the holder or upon a fundamental change, which includes events that are not fully within the Company's control, it was determined that the Convertible Preferred Stock should be classified as one line item in temporary (mezzanine) equity on the Company's condensed consolidated balance sheets.

Liquidation Preference

The Convertible Preferred Stock ranks senior to the Company's common stock. In the event of any liquidation or winding up of the Company, the holders of the Convertible Preferred Stock shall be entitled to receive in preference to the holders of the Company's common stock the greater of (a) the greater of (i) two times the Initial Value, defined as $1,000 per share and (ii) the Initial Value plus accrued and unpaid dividends, whether or not declared, and (b) the amount that would have been received based on the if-converted Accrued Value, defined as Initial Value plus accrued and unpaid dividends, whether or not declared. As of September 30, 2023, and December 31, 2022, the liquidation preference of the Convertible Preferred Stock was $179.3 million and $162.5 million, respectively.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

Note L – Revenues

The table below presents revenues by customer grouping for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Civil space	$ 29,336	$ 13,391	$ 82,831	$ 46,405
National security	13,393	12,032	38,153	29,242
Commercial and other	19,883	11,826	59,331	31,197
Total revenues	$ 62,612	$ 37,249	$ 180,315	$ 106,844

The table below presents revenues based on the geographic location of the Company's customers for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
U.S.	$ 47,138	$ 36,190	$ 135,574	$ 102,813
Europe	15,468	1,008	44,658	3,641
Other	6	51	83	390
Total revenues	$ 62,612	$ 37,249	$ 180,315	$ 106,844

The majority of the Company's revenues are derived from government contracts. Customers comprising 10% or more of revenues are presented below for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Customer A[(1)]	$ 12,862	$ —	$ 31,703	$ —
Customer B[(1)]	8,385	—	25,334	—
Customer C[(1)]	6,886	4,796	18,208	19,203
Customer D[(1)]	—	4,338	—	15,979
Customer E[(1)]	—	4,105	—	—
Total	$ 28,133	$ 13,239	$ 75,245	$ 35,182

[(1)] While revenue may have been generated during each of the periods presented, amounts are only disclosed for the periods in which revenues represented 10% or more of total revenue.

Contract Balances

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

	September 30, 2023	December 31, 2022
Contract assets	$ 39,779	$ 31,041
Contract liabilities	$ 27,059	$ 29,817

The increase in contract assets was primarily driven by revenue growth and the timing of billable milestones occurring during the nine months ended September 30, 2023.

The change in contract liabilities was primarily driven by the timing of billable milestones occurring during the nine months ended September 30, 2023. Revenue recognized in the nine months ended September 30, 2023 that was included in the contract liability balance as of December 31, 2022 was $27.8 million. Revenue recognized in the nine months ended September 30, 2022 that was included in the contract liability balance as of December 31, 2021 was $12.8 million.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

The Company evaluates the contract value and cost estimates at completion ("EAC") for performance obligations at least quarterly and more frequently when circumstances significantly change. Due to the nature of the work required to be performed on many of the Company's performance obligations, the estimate of total revenue and cost at completion is complex, subject to many variables and requires significant judgment by management on a contract-by-contract basis. As part of this process, management reviews information including, but not limited to, labor productivity, the nature and technical complexity of the work to be performed, availability and cost volatility of materials, subcontractor and vendor performance, volume assumptions, inflationary trends, and schedule and performance delays. Management's judgment related to these considerations has become increasingly more significant given the current macroeconomic environment.

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 to the statement of operations and comprehensive income (loss). 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 below table summarizes the favorable (unfavorable) impact of the net EAC adjustments for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net EAC adjustments, before income taxes	$ 2,453	$ (1,159)	$ 769	$ (4,377)
Net EAC adjustments, net of income taxes	2,360	(962)	754	(4,106)
Net EAC adjustments, net of income taxes, per diluted share	0.04	(0.02)	0.01	(0.07)

The change in net EAC adjustments in 2023 were primarily due to the release of contract reserves and favorable contract adjustments resulting from contract modifications during the three months ended September 30, 2023. The change in net EAC adjustments in 2022 were primarily due to increased production costs and labor market constraints driven by macroeconomic factors, including inflation.

Remaining Performance Obligations

As of September 30, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations was $223.3 million. The Company expects to recognize approximately 66% of its remaining performance obligations as revenue within the next 12 months and the balance thereafter.

Note M – Employee Benefit Plans

Post-Retirement Benefit Plans

The Company sponsors various post-retirement benefit plans for certain non-U.S. employees through its wholly-owned subsidiary, Space NV, including two cash balance plans: (i) a defined benefit pension plan with risk-based coverage for death and disability benefits (collectively, the "Base Plan") and (ii) a supplementary pension bonus plan that provides variable remuneration linked to employees' performance (the "Performance Plan"). The Company has taken actions to mitigate the risk related to its post-retirement benefit plans through pension risk transfer transactions whereby the Company subscribes to group insurance policies, which are funded by employee and employer premiums determined at the beginning of each plan year. The Company has determined that the unit of account is the insurance contract and therefore, on a plan-by-plan basis, recognizes the net funded status as either a net liability, to the extent that the benefit obligation exceeds the fair value of plan assets, or a net asset, to the extent that the fair value of plan assets exceeds the benefit obligation.

As of September 30, 2023 and December 31, 2022, the Company maintained two dormant pension accounts for former ROS employees who have chosen not to transfer their contributions to a new employer as of the respective dates. The Company's obligations under these plans were not significant individually or in the aggregate and, as such, are not included in the following tables. Prior to the acquisition of Space NV on October 31, 2022, the Company did not participate in any defined benefit plans. Therefore, there were no corresponding amounts reflected in the Company's consolidated financial statements prior to that date.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

Income Statement Information

The table below provides the components of net periodic benefit cost and other amounts recognized in the condensed consolidated statements of operations and comprehensive income (loss) for the following periods:

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	Base Plan	Performance Plan	Base Plan	Performance Plan
Net periodic benefit cost:				
Service cost	$ 82	$ 12	$ 247	$ 408
Interest cost	58	25	175	74
Expected return on plan assets	(57)	(27)	(173)	(71)
Net periodic benefit cost	$ 83	$ 10	$ 249	$ 411

Contributions

The required funding of our qualified defined benefit pension plans is determined in accordance with Belgium RegulationThe table below presents contributions made by the employee and employer for the following periods:

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
Contributions by:	Base Plan	Performance Plan	Base Plan	Performance Plan
Employee	$ 58	$ —	$ 159	$ —
Employer	99	—	267	403

Note N – Equity-Based Compensation

Class P Unit Incentive Plan

The Company's former parent adopted a written compensatory benefit plan (the "Class P Unit Incentive Plan") to provide incentives to existing or new employees, officers, managers, directors, or other service providers of the Company or its subsidiaries in the form of Holdings' Class P Units ("Incentive Units"). As amended, the Tranche I and the Tranche III Incentive Units became fully vested upon the closing of the Merger. Holdings also amended the Class P Unit Incentive Plan so that the Tranche II Incentive Units would vest on any liquidation event, as defined in the Class P Unit Incentive Plan, rather than only upon consummation of the sale of Holdings, subject to the market-based condition stipulated in the Class P Unit Incentive Plan prior to its amendment. All compensation expense related to Incentive Units was recognized during 2021 and 2022. As of September 30, 2023, Tranches I and III were fully vested, while Tranche II is still subject to the market-based vesting condition.

2021 Omnibus Incentive Plan

Stock Options

The Company's 2021 Omnibus Incentive Plan (the "Plan") authorizes the grant of stock options (incentive and non-qualified) to purchase shares of the Company's common stock with a contractual term of 10 years. The options vest over a three-year term as follows: 33.3% on the first anniversary of the grant date, 33.3% on the second anniversary of the grant date, and 33.4% on the third anniversary of the grant date. Vesting is contingent upon continued employment or service to the Company; both the vested and unvested portion of an option will be immediately forfeited and canceled if employment or service ceases to the Company. The Company recognizes equity-based compensation expense for the options equal to the fair value of the awards on a straight-line basis over the requisite service period and recognizes forfeitures as they occur.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

The table below presents the activity of stock options under the Plan:

	Shares	Weighted-Average Grant Date Fair Value per Share	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (Years)
Outstanding as of December 31, 2022	2,153,591	$ 2.70	$ 7.22	8.6
Granted	—	—	—	
Expired	(13,001)	3.28	9.86	
Forfeited	(37,999)	2.81	7.74	
Outstanding as of September 30, 2023	2,102,591	$ 2.69	$ 7.20	7.9

As of September 30, 2023, the total unrecognized compensation cost related to unvested stock options granted under the Plan was $1.0 million and is expected to be recognized over a weighted-average period of 1.4 years. As of September 30, 2023, there were 1,173,649 stock options that were vested and exercisable.

Performance-based Restricted Stock Units

The Plan authorizes the grant of performance-based restricted stock units ("PSUs"). The PSUs generally vest upon completion of a three-year period. The number of shares, if any, that are ultimately awarded is contingent upon the closing price per share at the end of the performance period and continued employment or service to the Company. The performance share payout is based on a market condition, and as such, the awards are valued using a Monte Carlo simulation model ("model"). The model generates the fair value of the award at the grant date, which is then recognized as expense on a straight-line basis over the vesting period. The Company recognizes forfeitures as they occur.

On July 3, 2023 and July 31, 2023, the Company granted 701,097 shares and 5,000 shares, respectively, of PSUs to certain officers, managers and other eligible employees pursuant to the Plan. The PSU award allows the grantee to earn between 0% and 200% of the award based on the Company's closing price per share at December 31, 2025. The grant date fair value of these awards was $3.15 per share.

The fair value of PSUs granted under the Plan was estimated on the grant date using the Monte Carlo simulation model with the following assumptions:

	2023 Grants
Valuation date stock price	$ 2.63
Remaining term of performance period	2.49 years
Expected volatility	81.00 %
Risk-free rate of return	4.70 %
Expected annual dividend yield	— %

As of September 30, 2023, total unrecognized compensation cost related to unvested PSUs granted under the Plan was $2.0 million and is expected to be recognized over a weighted-average period of 2.3 years. The Company had 706,097 PSUs outstanding as of September 30, 2023. There were no forfeitures related to PSUs during the three and nine months ended September 30, 2023.

Restricted Stock Units

Restricted stock units awarded under the Plan follow the same contractual terms and vesting conditions as the options described above and are generally subject to forfeiture in the event of termination of employment prior to vesting dates. The Company recognizes equity-based compensation expense for the restricted stock units equal to the fair value of the awards on a straight-line basis over the requisite service period and recognizes forfeitures as they occur.

On May 25, 2023, the Company granted 205,765 restricted stock units of the Company's common stock to non-employee directors. The restricted stock units vest on the one year anniversary from the grant date, subject to the director's continued service on the board. The weighted average grant date fair value of these awards was $2.43 per share.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

On July 3, 2023, the Company granted 1,640,347 restricted stock units to certain officers, managers and other eligible employees. The restricted stock units follow the same contractual terms and vesting conditions as the options described above. The grant date fair value of these awards was $2.63 per share.

The table below presents the activity of restricted stock units under the Plan:

	Restricted Shares	Weighted-Average Grant Date Fair Value per Share	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Unvested as of December 31, 2022	2,282,778	$ 6.30	1.3	$ 4,520
Granted	1,846,112	2.62		
Vested	(585,463)	3.35		
Forfeited	(215,781)	6.33		
Unvested as of September 30, 2023	3,327,646	$ 5.48	1.3	$ 9,617

As of September 30, 2023, total unrecognized compensation cost related to unvested restricted stock units granted under the Plan was $0.9 million and is expected to be recognized over a weighted-average period of 2.0 years.

The table below presents the equity-based compensation expense recorded for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Cost of sales				
Incentive Units	$ —	$ —	$ —	$ 181
Stock Options	13	17	105	42
Restricted Stock Units	681	594	1,952	1,760
Performance-based Restricted Stock Units	6	—	6	—
Total cost of sales	$ 700	$ 611	$ 2,063	$ 1,983
Selling, general and administrative expenses				
Incentive Units	$ —	$ —	$ —	$ 2,171
Stock Options	417	511	1,161	1,199
Restricted Stock Units	1,124	1,396	2,883	3,319
Performance-based Restricted Stock Units	210	—	210	—
Total selling, general and administrative expenses	$ 1,751	$ 1,907	$ 4,254	$ 6,689
Total equity-based compensation expense	$ 2,451	$ 2,518	$ 6,317	$ 8,672

Note O – Impairment Expense

The table below presents the impairment expense recorded during the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Property, plant and equipment, net	$ —	$ —	$ —	$ 12,941
Intangible assets, net	—	—	—	28,213
Goodwill	—	—	—	39,308
Total impairment expense	$ —	$ —	$ —	$ 80,462

During the second quarter of 2022, there was a significant and prolonged decline in the Company's market capitalization driven by general economic conditions, including heightened inflation, rising interest rates and volatility in the capital markets. Specifically for the Mission Solutions reporting unit, the Company observed a significant decline in discounted future cash flows, primarily attributable to a decrease in forecasted revenues as well as increased production costs and subcontractor delays that had extended the timeline for fulfillment of existing performance obligations and deferred pipeline realization. After considering the totality of events and circumstances, the Company determined that these triggering events indicated that certain recorded intangible assets, including goodwill, and property, plant and equipment may be impaired. After considering the totality of events and circumstances described above, the Company performed an interim quantitative impairment assessment of all reporting units and asset groups as of June 30, 2022, which resulted in a partial impairment of goodwill and certain tangible and intangible assets recorded on the Mission Solutions reporting unit and its underlying asset groups. During the third quarter of 2022, the Company concluded that there were no indicators of impairment requiring further impairment testing.

Fair value estimates used in the Company's quantitative impairment assessments result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions that have been deemed reasonable by management as of the measurement date. Additional information related to these impairment activities is provided below.

Impairment activities during the nine months ended September 30, 2022 did not have any impact on the Company's compliance with the Adams Street Credit Agreement, as amended, or other contract related covenants.

During the three and nine months ended September 30, 2023, the Company did not identify any indicators of impairment and, therefore, no impairment expense was recorded for the respective periods.

Property, plant and equipment, net

During the second quarter of 2022, as a result of the qualitative factors described above, the Company performed an interim quantitative impairment test and determined that the carrying value of two asset groups within the Mission Solutions reporting unit were not recoverable based on entity-specific, undiscounted net cash flows. Accordingly, impairment expense was measured as the amount by which the carrying value of the asset groups exceeded their fair value as of the respective reporting date. The fair value of the two asset groups was determined using an income approach based on a discounted cash flow model. Based on the results of the quantitative impairment test performed as of June 30, 2022, the Company recognized impairment expense related to property and equipment and leasehold improvements of $12.9 million during the nine months ended September 30, 2022.

Intangible assets, net

During the second quarter of 2022, as a result of the qualitative factors described above, the Company performed an interim quantitative impairment test of certain indefinite-lived intangible assets and definite-lived intangible assets. The fair value of the Company's indefinite-lived intangible assets was determined using the relief from royalty method, which assumes that the asset's fair value is the present value of license fees avoided by owning it. Please refer to the property, plant and equipment, net discussions above regarding the methodologies used for definite-lived intangibles.

Impairment expense was measured as the amount by which the carrying value of the intangible assets exceeded their fair value as of the respective reporting date. Based on the results of the quantitative impairment test as of June 30, 2022, the Company recognized impairment expense related to customer relationships, technology, trademarks, internal-use software licenses and IPR&D of $28.2 million during the nine months ended September 30, 2022.

Goodwill

During the second quarter of 2022, as a result of the qualitative factors described above, the Company performed an interim quantitative goodwill impairment test. The fair value of the Company's reporting units was determined using a combination and applied weighting of an income approach based on a discounted cash flow model as well as two market approaches based on (i) guideline public company revenues and earnings before interest, tax, depreciation and amortization multiples and (ii) guideline transactions, whereby consideration is given to prices paid in market comparable transactions.

Based on the interim impairment test, the Company determined that the estimated fair value of the Mission Solutions reporting unit was lower than its carrying value as of June 30, 2022. Accordingly, the Company recorded total non-cash, pre-tax and post-tax impairment charges of $ 39.3 million during the nine months ended September 30, 2022, which reduced the reporting unit's goodwill balance to $10.7 million as of September 30, 2022.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

The impairment of goodwill of the Mission Solutions reporting unit was due to a significant decline in discounted future cash flows, primarily attributable to a decrease in forecasted revenues as well as increased production costs and subcontractor delays that had extended the timeline for fulfillment of existing performance obligations and deferred pipeline realization.

Note P – Net Income (Loss) per Common Share

The table below presents a reconciliation of the basic and diluted net income (loss) per share that were computed for the following periods:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Numerator:				
Net income (loss) attributable to Redwire Corporation	$ (6,253)	$ (10,423)	$ (18,975)	$ (104,744)
Less: dividends on Convertible Preferred Stock	2,874	—	12,040	—
Net income (loss) available to common shareholders	$ (9,127)	$ (10,423)	$ (31,015)	$ (104,744)
Denominator:				
Weighted-average common shares outstanding:				
Basic and diluted	64,795,985	63,460,527	64,475,390	63,050,769
Net income (loss) per common share:				
Basic and diluted	$ (0.14)	$ (0.16)	$ (0.48)	$ (1.66)

Basic and diluted net income (loss) per common share are calculated by dividing net income (loss) available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) during the period. Net income (loss) available to common shareholders (the numerator) is calculated by deducting both dividends declared and accumulated, regardless of the form of payment, during the period from Net income (loss) attributable to Redwire Corporation as presented on the condensed consolidated statements of operations and comprehensive income (loss).

Basic net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares and common equivalent shares outstanding for the periods presented using the treasury-stock method or, for participating securities, the if-converted method or two-class method, whichever is more dilutive. Common equivalent shares outstanding includes the dilutive effects from the assumed issuance, exercise or conversion of warrants, equity-based awards, and the Convertible Preferred Stock, except when antidilutive.

Because the Company had a net loss for all periods presented, the Company didnot have any dilutive securities and/or other contracts that could, potentially, be exercised or converted into shares of common stock and then share in the earnings of the Company. As a result, diluted net income (loss) per common share is the same as basic net income (loss) per common share for the periods presented. Please refer to Note D – Fair Value of Financial Instruments, Note K – Convertible Preferred Stock, and Note N – Equity-Based Compensation for additional information on the Company's warrants, Convertible Preferred Stock, and equity-based compensation awards, respectively.

Note Q – Joint Venture

The Company, through its wholly-owned subsidiary, Space NV, participates in a joint venture operation with SES Techcom S.A. ("Techcom") for the purpose of performing M&O Services for ESA, among others. Pursuant to a shareholders agreement dated June 28, 2007, this joint venture was created under the form of two companies: RSS and ROS, both of which are organized under Belgian law. Total authorized share capital for RSS and ROS was €250 thousand. The Company has an ownership interest in RSS and ROS of 48% and 52%, respectively, while Techcom has ownership interests in RSS and ROS of52% and 48%, respectively. Voting rights, board representation and distribution of residual returns are proportionate to these equity interests.

M&O Services provided under the joint venture include development, operation and maintenance of satellite communication systems and ground facilities as well as in-orbit testing and educational support services on delivered infrastructure. These services are jointly performed with ROS serving as a subcontractor to RSS. Pursuant to an agreement dated April 1, 2022 (the "Transfer Agreement"), all

M&O activities were transferred from ROS to RSS, including personnel, and the subcontractor relationship between ROS and RSS was terminated on the same date. The Company exhibits significant influence over the joint venture operations and receives a management fee in exchange for administrative services.

The acquisition of Space NV by the Company did not result in any changes to the joint venture or ownership interests in the underlying legal entities. The joint venture automatically terminates on the earlier of: (i) the expiration of the M&O Service agreement with ESA, unless other business is conducted by either company at the time of expiration, (ii) complete withdrawal of ownership interests held by Space NV or Techcom, or (iii) unanimous consent by the shareholders that both RSS and ROS are dissolved.

Both RSS and ROS are accounted for under the VIE model due to insufficient equity investment at risk to finance operations without subordinated financial support. Additional information with regard to these entities is provided below.

Consolidated Variable Interest Entity

ROS was formed with an initial issued share capital of €0.1 million representing 1,000 shares of €100 par value each. The shares were fully paid upon incorporation with Space NV and Techcom owning 52% and 48%, respectively. ROS's board of directors is composed of five members elected for renewable terms of 2 years. As previously noted, board representation under the joint venture is proportionate to equity ownership with Space NV holding a majority as of September 30, 2023 and December 31, 2022.

The Company evaluated its interests in the joint venture and determined that Space NV had a variable interest in ROS as of September 30, 2023 and December 31, 2022. Due to their power to direct activities of the VIE that most significantly impact its economic performance, Space NV was determined to be the primary beneficiary and, therefore, consolidated ROS as of September 30, 2023 and December 31, 2022. Total assets and total liabilities for ROS as of September 30, 2023 were $0.7 million and $0.4 million, respectively, and $1.6 million and $1.1 million, respectively, as of December 31, 2022. Net income from ROS for the three and nine months ended September 30, 2023 was de minimis for disclosure.

Nonconsolidated Variable Interest Entity

RSS was also formed with an initial issued share capital of €0.1 million representing 1,000 shares of €100 par value each. The shares were fully paid upon incorporation with Techcom and Space NV owning 52% and 48%, respectively. RSS's board of directors is composed of five members elected for renewable terms of 2 years. As previously noted, board representation under the joint venture is proportionate to equity ownership with Techcom holding a majority as of September 30, 2023 and December 31, 2022.

The Company determined that Space NV was not the primary beneficiary of RSS due to Techcom having the power to direct the activities of the VIE that most significantly impact its economic performance. As a result of having ownership greater than 20% but less than 50% and holding two of five board seats, Space NV has the ability to exercise significant influence over the entity. Accordingly, RSS is accounted for as an equity method investment.

The Company recognized a loss from RSS of $0.2 million for the three months ended September 30, 2023 and nominal income from RSS during the nine months ended September 30, 2023, which is included in other (income) expense, net on the condensed consolidated statements of operations and comprehensive income (loss). The carrying value of the equity method investment was $3.2 million and $3.3 million as of September 30, 2023 and December 31, 2022, respectively.

Note R – Related Parties

A customer of the Company, Related Party A, was a related party as Peter Cannito, the Company's Chairman and Chief Executive Officer, and Kirk Konert, a member of the Company's board of directors, also serve on the board of directors for the customer effective as of the second quarter of 2022.

A customer of the Company, Related Party B, was a related party as AEI acquired a majority interest in the customer during the fourth quarter of 2022 and Kirk Konert, a member of the Company's board of directors, also serves on the board of directors for this customer.

(Tabular amounts in thousands of U.S. dollars, except percentages, unit, share, and warrant amounts)

The table below presents details of the Company's related party transactions included on the condensed consolidated balance sheets and the condensed consolidated statements of operations and comprehensive income (loss) for the following periods:

	As of	
	September 30, 2023	December 31, 2022
Accounts receivable:		
Related Party A	$ 265	$ —
Related Party B	—	258
	$ 265	$ 258

	Three Months Ended		Nine Months Ended	
Revenues:	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Related Party A	$ 168	$ 677	$ 776	$ 871
Related Party B[(1)]	1,497	—	5,831	—
	$ 1,665	$ 677	$ 6,607	$ 871

(1) While revenue may have been generated during each of the periods presented, amounts are only disclosed for the periods in which the customer was a related party.

In the normal course of business, the Company participates in related party transactions with certain vendors and customers where AEI maintains a significant ownership interest and/or can exhibit significant influence on the operations of such parties. For the three and nine months ended September 30, 2023 and September 30, 2022, transactions with other companies in AEI's investment portfolio, not separately disclosed, did not have a material impact on the Company's condensed consolidated financial statements.

Please refer to Note K – Convertible Preferred Stock, for related party transactions associated with the Company's Convertible Preferred Stock.

Note S – Subsequent Events

On November 1, 2023, in accordance with the Convertible Preferred Stock Certificate of Designation, the Company issued6,600.54 shares of Series A Convertible Preferred Stock to holders of record as of October 16, 2023. As such, the 93,890.20 outstanding shares of Convertible Preferred Stock were convertible into approximately30,783,672 shares of the Company's common stock as of November 1, 2023.

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

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q. Certain information contained in this 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. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to "Item 1A. Risk Factors" and the "Cautionary Note Regarding Forward-Looking Statements" sections of this Quarterly Report on Form 10-Q. Unless the context otherwise requires, all references in this section to the "Company," "Redwire," "we," "us" or "our" refer to Redwire Corporation and its consolidated subsidiaries.

Business Overview

Redwire is a global leader in space infrastructure - we provide the foundational building blocks that are enabling the most complex space missions to succeed.

With decades of proven flight heritage uniquely combined with innovative products and culture, Redwire is uniquely positioned to assist our customers in solving the complex challenges of future space missions and industries. Redwire has three primary areas of focus that form our business: (1) enabling space mission providers, such as government agencies and large prime contractors, with a broad portfolio of space infrastructure, systems, subsystems, and components; (2) providing the infrastructure and technology needed for people to permanently explore, live and work in space; and (3) assisting international spacefaring allies in the development of organic space capabilities.

Space infrastructure is critical to our terrestrial economy in areas such as telecommunications, navigation and timing, climate monitoring, weather forecasting, Earth observation, national security, and even planetary defense. Redwire does not offer full mission solutions for all these areas, but our government and marquee customers such as government agencies and large prime contractors do. We offer a broad array of products and services, many of which have been enabling space missions since the 1960s and have been flight-proven on over 200 spaceflight missions, including missions such as the GPS constellation, New Horizons and Perseverance. We are also a provider of innovative technologies with the potential to help transform the economics of space and create new markets for its exploration and commercialization. One example of this is our proprietary roll out solar array ("ROSA") systems. Other examples of our proprietary technologies include deployable structures, human-rated camera systems and digital engineering.

The following discussion should be read along with the financial statements included in this Form 10-Q, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Liquidity and Capital Resources," and "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 31, 2023, which provides additional information on our business, the environment in which we operate and our operating results.

Recent Developments

During the third quarter of 2023, the Company continued to deliver improved operations and financial performance year-over-year.

- Revenues increased 68% during the third quarter of 2023, as compared to the same period in 2022, and increased 69% for the nine months ended September 30, 2023 compared to the same period in 2022.
- Selling, general and administrative expenses as a percentage of revenues decreased to 29% during the third quarter of 2023 from 41% during the same period in 2022, and decreased to 29% for the nine months ended September 30, 2023 from50% during the same period in 2022.
- Net loss decreased 39% during the third quarter of 2023, as compared to the same period in 2022, and decreased 82% for the nine months ended September 30, 2023 compared to the same period in 2022.
- Net cash used in operating activities decreased $12.4 million during the nine months ended September 30, 2023, as compared to the same period in 2022.
- Contracted backlog increased year-over-year to $253.4 million as of September 30, 2023, as compared to $158.9 million as of September 30, 2022.

Macroeconomic Environment

We continue to evaluate the ongoing impact of adverse macroeconomic conditions including, among others, heightened inflation, rising interest rates, volatility in capital markets, supply chain disruptions, and regulatory challenges that have affected the Company's cost of capital, financial condition and results of operations. During 2022, inflation and supply chain pressures adversely impacted the Company's schedule of various programs and increased production costs, which impacted our revenues and gross margins. While the direct impact of COVID-19 was limited during the nine months ended September 30, 2023, its long-term impacts on the business remain uncertain, particularly as it relates to the macroeconomic factors described above.

Results of Operations

For purposes of the following discussion and analysis, any financial impact related to the acquisition of Redwire Space NV (f/k/a QinetiQ Space NV) ("Space NV") is referred to as the "Space NV Acquisition."

Results of operations for the three months ended September 30, 2023 compared to the three months ended September 30, 2022

The following table presents our results of operations for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, along with the percentage of revenues and the dollar and percent change compared to the prior period:

	Three Months Ended					
(in thousands, except percentages)	September 30, 2023	% of revenues	September 30, 2022	% of revenues	$ Change from prior year period	% Change from prior year period
Revenues	$ 62,612	100 %	$ 37,249	100 %	$ 25,363	68 %
Cost of sales	45,495	73	29,300	79	16,195	55
Gross margin	**17,117**	**27**	**7,949**	**21**	**9,168**	**115**
Operating expenses:						
Selling, general and administrative expenses	18,302	29	15,312	41	2,990	20
Transaction expenses	—	—	1,819	5	(1,819)	(100)
Research and development	1,532	2	1,133	3	399	35
Operating income (loss)	**(2,717)**	**(4)**	**(10,315)**	**(28)**	**7,598**	**(74)**
Interest expense, net	2,629	4	2,401	6	228	9
Other (income) expense, net	1,232	2	(158)	—	1,390	(880)
Income (loss) before income taxes	**(6,578)**	**(11)**	**(12,558)**	**(34)**	**5,980**	**(48)**
Income tax expense (benefit)	(253)	—	(2,135)	(6)	1,882	(88)
Net income (loss)	**(6,325)**	**(10)**	**(10,423)**	**(28)**	**4,098**	**(39)**
Net income (loss) attributable to noncontrolling interests	(72)	—	—	—	(72)	100
Net income (loss) attributable to Redwire Corporation	**$ (6,253)**	**(10) %**	**$ (10,423)**	**(28) %**	**$ 4,170**	**(40)%**

Revenues

Revenues increased 68% to $62.6 million for the three months ended September 30, 2023, as compared to $37.2 million for the three months ended September 30, 2022. The year-over-year increase in revenues was primarily driven by $13.5 million of contributed revenue from the Space NV Acquisition. Additionally, the increase is partially due to changes in contract mix, and increased volume of production in the deployables, in-space technologies and engineering solutions space.

Cost of Sales

Cost of sales increased $16.2 million, or 55%, for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022. The year-over-year increase in cost of sales was primarily driven by $11.7 million of contributed cost of sales from the Space NV Acquisition and increased costs associated with revenue growth for the period. These activities were partially offset by a decrease due to changes in contract mix.

Gross Margin

Gross margin increased $9.2 million, or 115%, for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022. As a percentage of revenues, gross margin was 27% and 21% for the three months ended September 30, 2023 and 2022, respectively. The year-over-year increase in gross margin was primarily driven by increased profitability on new contract awards and completion of low gross margin contracts to improve the overall contract portfolio gross margin. The increase was also partly due to gross margin contributions from the Space NV Acquisition, which represents 23% of the year-over-year increase.

Selling, General and Administrative (“SG&A”) Expenses

SG&A expenses increased $3.0 million, or 20%, for the three months ended September 30, 2023, as compared with the same period in 2022. The year-over-year increase is primarily due to $4.2 million of contributed SG&A expenses from the Space NV Acquisition. These costs were partially offset by the Company’s continued focus on cost discipline and streamlining corporate overhead costs to enhance operating leverage. This contributed to a year over year decrease of SG&A as a percentage of revenue to 29% for the three months ended September 30, 2023 from 41% for the same period in 2022.

Transaction Expense

Transaction expenses decreased $1.8 million or 100% for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022. The transaction expenses incurred during the three months ended September 30, 2022 were primarily related to the Techshot, Inc. and Space NV acquisitions while there were no transaction expenses incurred during the three months ended September 30, 2023.

Research and Development

Research and development expenses for the three months ended September 30, 2023 remained materially consistent as compared with the same period in 2022.

Interest Expense, net

Interest expense, net for the three months ended September 30, 2023 remained materially consistent as compared with the same period in 2022. Refer to Note G – Debt of the accompanying notes to the condensed consolidated financial statements for additional information related to the Company’s debt obligations.

Other (Income) Expense, net

Other (income) expense, net decreased from net other income to net other expense by $1.4 million, for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022. The year-over-year decrease was primarily related to a loss of $0.5 million recognized as a result of changes in the fair value of the private warrant liability during the three months ended September 30, 2023 compared to a gain of $0.9 million recognized in the comparable period of 2022. Refer to Note D – Fair Value of Financial Instruments of the accompanying notes to the condensed consolidated financial statements for additional information related to the private warrants.

Income Tax Expense (Benefit)

The table below provides information regarding our income tax expense (benefit) for the following periods:

	Three Months Ended	
(in thousands, except percentages)	September 30, 2023	September 30, 2022
Income tax expense (benefit)	$ (253)	$ (2,135)
Effective tax rate	3.8 %	17 %

The effective tax rate decreased to 3.8% for thethree months ended September 30, 2023, as compared to 17% for three months ended September 30, 2022, primarily due to an increase in the valuation allowance during 2023. Refer to Note I – Income Taxes of the accompanying notes to thecondensed consolidated financial statements for further discussion.

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests increased $0.1 million or 100% for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022. There was no such comparable amount during the prior year. Please refer to Note Q – Joint Venture of the accompanying notes to the condensed consolidated financial statements for additional information.

Results of operations for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022

The following table presents our results of operations for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022:

(in thousands, except percentages)	Nine Months Ended September 30, 2023	% of revenues	September 30, 2022	% of revenues	$ Change from prior year period	% Change from prior year period
Revenues	$ 180,315	100 %	$ 106,844	100 %	$ 73,471	69 %
Cost of sales	133,077	74	86,742	81	46,335	53
Gross margin	**47,238**	**26**	**20,102**	**19**	**27,136**	**135**
Operating expenses:						
Selling, general and administrative expenses	52,026	29	53,825	50	(1,799)	(3)
Transaction expenses	13	—	1,913	2	(1,900)	(99)
Impairment expense	—	—	80,462	75	(80,462)	(100)
Research and development	3,990	2	4,565	4	(575)	(13)
Operating income (loss)	**(8,791)**	**(5)**	**(120,663)**	**(113)**	**111,872**	**(93)**
Interest expense, net	7,937	4	5,523	5	2,414	44
Other (income) expense, net	2,689	1	(14,493)	(14)	17,182	(119)
Income (loss) before income taxes	**(19,417)**	**(11)**	**(111,693)**	**(105)**	**92,276**	**(83)**
Income tax expense (benefit)	(369)	—	(6,949)	(7)	6,580	(95)
Net income (loss)	**(19,048)**	**(11)**	**(104,744)**	**(98)**	**85,696**	**(82)**
Net income (loss) attributable to noncontrolling interests	(73)	—	—	—	(73)	100
Net income (loss) attributable to Redwire Corporation	**$ (18,975)**	**(11) %**	**$ (104,744)**	**(98)%**	**$ 85,769**	**(82)%**

Revenues

Revenues increased by $73.5 million, or 69%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The year-over-year increase in revenues was driven by $40.0 million of contributed revenue from the Space NV Acquisition. Additionally, the increase was partially due to changes in contract mix, increase in average contract size and increased volume of production in the deployables, in-space technologies and engineering solutions space.

Cost of Sales

Cost of sales increased $46.3 million, or 53%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The year-over-year increase in cost of sales was primarily driven by increased costs associated with revenue growth for the period and $32.6 million of contributed cost of sales from the Space NV Acquisition.

Gross Margin

Gross margin increased $27.1 million, or 135%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. As a percentage of revenues, gross margin was 26% and 19% for the nine months ended September 30, 2023 and 2022, respectively. The year-over-year increase in gross margin was primarily driven by an increase in large fixed-price contract awards as a percentage of revenues, completion of low gross margin contracts to improve the overall contract portfolio gross margin and gross margin contributions from the Space NV Acquisition.

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

SG&A expenses decreased $1.8 million, or 3%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022As a percentage of revenues, SG&A expenses were 29% and 50% for the nine months ended September 30, 2023 and 2022, respectively. The year-over-year decrease in SG&A expenses as a percentage of revenue was primarily driven by a decrease in share-based compensation and legal expenses of $2.4 million and $2.5 million, respectively. This decrease also reflects the Company's continued focus on cost discipline and streamlining corporate overhead costs to enhance operating leverage. These cost savings were partially offset by $11.2 million of contributed SG&A expenses from the Space NV Acquisition.

Transaction Expenses

Transaction expenses decreased $1.9 million or 99% for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The transaction expenses incurred during the nine months ended September 30, 2022 were primarily related to the Techshot, Inc. and Space NV acquisitions while there were nominal expenses incurred during the nine months ended September 30, 2023.

Impairment Expense

Impairment expense decreased $80.5 million or 100% for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. There was no impairment charge recognized during the nine months ended September 30, 2023. In comparison, during the second quarter of 2022, the Company performed a quantitative impairment assessment and recorded a non-cash, pre-tax and post-tax impairment charge of $80.5 million. Of this amount, $12.9 million related to property and equipment, $28.2 million related to intangible assets and $39.3 million related to goodwill. Please refer to Note O – Impairment Expense of the accompanying notes to the condensed consolidated financial statements for additional information.

Research and Development

Research and development expenses decreased $0.6 million, or 13%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The decrease was primarily driven by the redirection of resources to direct billing projects as well as investment planning to limit research and development costs to future technologies that are aligned with end-market needs and support long-term profitability and a sustainable competitive advantage.

Interest Expense, net

Interest expense, net increased $2.4 million, or 44%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. This increase was primarily related to an increase in our cost of capital due to unfavorable changes in variable interest rates on the Company's debt obligations. Please refer to Note G – Debt of the accompanying notes to the condensed consolidated financial statements for additional information related to the Company's debt obligations.

Other (Income) Expense, net

Other (income) expense, net decreased $17.2 million, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. This year-over-year decrease was primarily due to a $2.5 million loss as a result of an increase in the fair value of the Company's private warrant liability for the nine months ended September 30, 2023 as compared to $16.0 million gain for the comparable period in 2022. This decrease was partially offset due to a reduction in other expense of $0.8 million for costs related to the committed equity facility during the nine months ended September 30, 2022, of which there was $0.2 million corresponding expense during 2023. Please refer to Note D – Fair Value of Financial Instruments of the accompanying notes to the condensed consolidated financial statements for additional information related to the private warrants and committed equity facility.

Income Tax Expense (Benefit)

The table below provides information regarding our income tax expense (benefit) for the following periods:

	Nine Months Ended	
(in thousands, except percentages)	**September 30, 2023**	**September 30, 2022**
Income tax expense (benefit)	$ (369)	$ (6,949)
Effective tax rate	1.9 %	6.2 %

The decrease in our effective tax rate for thenine months ended September 30, 2023, as compared to the nine months ended September 30, 2022 is primarily due to an increase in the valuation allowance during the nine months ended September 30, 2023. Please refer to Note I – Income Taxes of the accompanying notes to thecondensed consolidated financial statements for additional information.

Net Income (Loss) Attributable to Noncontrolling Interests

The net income (loss) attributable to noncontrolling interests increased $0.1 million, or 100%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. There was no such comparable amount during the prior year. Please refer to Note Q – Joint Venture of the accompanying notes to the condensed consolidated financial statements for additional information.

Supplemental Non-GAAP Information

We use Adjusted EBITDA and Pro Forma Adjusted EBITDA to evaluate our operating performance, generate future operating plans, and make strategic decisions, including those relating to operating expenses and the allocation of internal resources which are not calculated in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and are considered to be Non-GAAP financial performance measures. These Non-GAAP financial performance measures are used to supplement the financial information presented on a U.S. GAAP basis and should not be considered in isolation or as a substitute for the relevant U.S. GAAP measures and should be read in conjunction with information presented on a U.S. 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 is defined as net income (loss) adjusted for interest expense, net, income tax (benefit) expense, depreciation and amortization, impairment expense, acquisition deal costs, acquisition integration costs, acquisition earnout costs, purchase accounting fair value adjustment related to deferred revenue, severance costs, capital market and advisory fees, litigation-related expenses, write-off of long-lived assets, equity-based compensation, committed equity facility transaction costs, debt financing costs, and warrant liability fair value adjustments. Pro Forma Adjusted EBITDA is defined as Adjusted EBITDA further adjusted for the incremental Adjusted EBITDA that acquired businesses would have contributed for the periods presented if such acquisitions had occurred on January 1 of the year in which they occurred. Accordingly, historical financial information for the businesses acquired includes pro forma adjustments calculated in a manner consistent with the concepts of Article 8 of Regulation S-X, which are ultimately added back in the calculation of Adjusted EBITDA. From March 2020 through September 30, 2023, the Company has completed nine acquisitions, and as such, we believe Pro Forma Adjusted EBITDA provides meaningful insights into the impact of strategic acquisitions as well as an indicative run rate of the Company's future operating performance.

The table below presents a reconciliation of Adjusted EBITDA and Pro Forma Adjusted EBITDA to net income (loss), computed in accordance with U.S. GAAP for the following periods:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income (loss)	$ (6,325)	$ (10,423)	$ (19,048)	$ (104,744)
Interest expense, net	2,629	2,402	7,937	5,523
Income tax expense (benefit)	(253)	(2,135)	(369)	(6,949)
Depreciation and amortization	2,887	1,776	7,971	8,836
Impairment expense	—	—	—	80,462
Acquisition deal costs (i)	—	1,819	13	1,913
Acquisition integration costs (i)	—	1,417	546	2,819
Purchase accounting fair value adjustment related to deferred revenue (ii)	—	40	15	106
Severance costs (iii)	62	5	382	468
Capital market and advisory fees (iv)	2,536	1,407	6,891	4,815
Litigation-related expenses (v)	249	256	317	2,824
Equity-based compensation (vi)	2,451	2,518	6,317	8,672
Committed equity facility transaction costs (vii)	245	194	179	964
Debt financing costs (viii)	—	102	17	102
Warrant liability change in fair value adjustment (ix)	464	(850)	2,475	(16,005)
Adjusted EBITDA	4,945	(1,472)	13,643	(10,194)
Pro forma impact on Adjusted EBITDA (x)	—	1,103	—	3,612
Pro Forma Adjusted EBITDA	$ 4,945	$ (369)	$ 13,643	$ (6,582)

i. Redwire incurred acquisition costs including due diligence, integration costs and additional expenses related to pre-acquisition activity.

ii. Redwire recorded adjustments related to the impact of recognizing deferred revenue at fair value as part of the purchase accounting for previous acquisitions.

iii. Redwire incurred severance costs related to separation agreements entered into with former employees.

iv. Redwire incurred capital market and advisory fees related to advisors assisting with transitional activities associated with becoming a public company and the internalization of corporate services.

v. Redwire incurred expenses related to the 2021 Audit Committee investigation and resulting securities litigation as further described in Note J of the accompanying notes to the condensed consolidated financial statements.

vi. Redwire incurred expenses related to equity-based compensation under Redwire's equity-based compensation plan.

vii. Redwire incurred expenses related to the committed equity facility with B. Riley, which includes consideration paid to enter into the Purchase Agreement as well as changes in fair value recognized as a gain or loss during the respective periods.

viii. Redwire incurred expenses related to debt financing agreements, including amendment related fees paid to third parties that are expensed in accordance with U.S. GAAP.

ix. Redwire adjusted the private warrant liability to reflect changes in fair value recognized as a gain or loss during the respective periods.

x. Pro forma impact is computed in a manner consistent with the concepts of Article 8 of Regulation S-X and represents the incremental results of a full period of operations assuming the entities acquired during the periods presented were acquired from January 1 of the year in which they occurred. For the periods presented, the pro forma impact included the results of Space NV.

Key Performance Indicators

The following Key Performance Indicators ("KPIs") are used by Management to assess the financial performance of the Company, monitor relevant trends and support financial, operational and strategic decision-making. Management frequently monitors and evaluates KPIs against internal targets, core business objectives as well as industry peers and may, on occasion, change the mix or calculation of KPIs to better align with the business, its operating environment, standard industry metrics, or other considerations. If the Company changes the method by which it calculates or presents a KPI, prior period disclosures are recast to conform to current presentation.

During the first quarter of 2023, we made the following changes with respect to our KPIs:

- Changed the book-to-bill calculation to present this metric on an LTM ("Last Twelve Months") basis, whereas prior period disclosures were presented on a year-to-date basis. Book-to-bill LTM is calculated by aggregation of quarterly revenues and contracts awarded for the last four quarters.
- Changed the backlog calculation to present only contracted backlog, whereas prior period disclosures also presented uncontracted backlog. There was no change in the calculation of contracted backlog.

Management believes these presentation changes will provide meaningful insights into contract award trends and increase comparability of the Company's performance metrics with industry peers.

Book-to-Bill

Our book-to-bill ratio was as follows for the periods presented:

	Three Months Ended		Last Twelve Months	
(in thousands, except ratio)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Contracts awarded	$ 46,523	$ 34,042	$ 322,837	$ 185,480
Revenues	62,612	37,249	234,020	147,919
Book-to-bill ratio	**0.74**	**0.91**	**1.38**	**1.25**

Book-to-bill is the ratio of total contracts awarded to revenues recorded in the same period. The contracts awarded balance includes firm contract orders, including time and material contracts, awarded during the period and does not include unexercised contract options or potential orders under indefinite delivery/indefinite quantity contracts. Although the contracts awarded balance reflects firm contract orders, terminations, amendments, or contract cancellations may occur which could result in a reduction to the contracts awarded balance.

We view book-to-bill as an indicator of future revenue growth potential. To drive future revenue growth, our goal is for the level of contracts awarded in a given period to exceed the revenue recorded, thus yielding a book-to-bill ratio greater than 1.0.

Our book-to-bill ratio was 0.74 for the three months ended September 30, 2023, as compared to 0.91 for the three months ended September 30, 2022. For both the three months ended September 30, 2023 and 2022, none of the contracts awarded balance relates to acquired contract value.

Our book-to-bill ratio was 1.38 for the LTM ended September 30, 2023, as compared to 1.25 for the LTM ended September 30, 2022. For the LTM ended September 30, 2023, contracts awarded includes acquired contract value from the Space NV acquisition, which was completed in the fourth quarter of 2022. For the LTM ended September 30, 2022, contracts awarded includes acquired contract value from the Techshot, Inc. acquisition, which was completed in the fourth quarter of 2021.

Backlog

The following table presents our contracted backlog as of September 30, 2023 and December 31, 2022, and related activity for the nine months ended September 30, 2023 as compared to the year ended December 31, 2022.

(in thousands)	September 30, 2023	December 31, 2022
Organic backlog, beginning balance	$ 184,912	$ 139,742
Organic additions during the period	97,252	194,539
Organic revenue recognized during the period	(140,291)	(148,891)
Foreign currency translation	(46)	(478)
Organic backlog, ending balance	141,827	184,912
Acquisition-related contract value, beginning balance	128,145	—
Acquisition-related contract value acquired during the period	—	109,765
Acquisition-related additions during the period	24,581	22,731
Acquisition-related revenue recognized during the period	(40,025)	(11,658)
Foreign currency translation	(1,098)	7,307
Acquisition-related backlog, ending balance	111,603	128,145
Contracted backlog, ending balance	**$ 253,430**	**$ 313,057**

We view growth in backlog as a key measure of our business growth. Contracted backlog represents the estimated dollar value of firm funded executed contracts for which work has not been performed (also known as the remaining performance obligations on a contract). Our contracted backlog includes $30.1 million and $37.4 million in remaining contract value from time and materials contracts as of September 30, 2023 and as of December 31, 2022, respectively.

Organic backlog change excludes backlog activity from acquisitions for the first four full quarters since the entities' acquisition date. Contracted backlog activity for the first four full quarters since the entities' acquisition date is included in acquisition-related contracted backlog change. After the completion of four fiscal quarters, acquired entities are treated as organic for current and comparable historical periods.

Organic contract value includes the remaining contract value as of January 1 not yet recognized as revenue and additional orders awarded during the period for those entities treated as organic. Acquisition-related contract value includes remaining contract value as of the acquisition date not yet recognized as revenue and additional orders awarded during the period for entities not treated as organic. The acquisition-related contract backlog activity presented in the table above includes only the contracted backlog of Space NV. Similarly, organic revenue includes revenue earned during the period presented for those entities treated as organic, while acquisition-related revenue includes the same for all other entities, excluding any pre-acquisition revenue earned during the period.

Although contracted backlog reflects business associated with contracts that are considered to be firm, terminations, amendments or contract cancellations may occur, which could result in a reduction in our total backlog. In addition, some of our multi-year contracts are subject to annual funding. Management fully expects all amounts reflected in contracted backlog to ultimately be fully funded. Contracted backlog from foreign operations in Luxembourg and Belgium was $113.7 million and $129.9 million as of September 30, 2023 and December 31, 2022, respectively. These amounts are subject to foreign exchange rate translations from Euros to U.S. dollars that could cause the remaining backlog balance to fluctuate with the foreign exchange rate at the time of measurement.

Liquidity and Capital Resources

Since inception, we have funded our operations with cash flows provided by operating activities, access to existing credit facilities, proceeds from the issuance of common stock under the B. Riley committed equity facility and proceeds from the sale of Convertible Preferred Stock. As of September 30, 2023, we had $10.9 million in cash and cash equivalents, $20.0 million in available borrowings from our existing credit facilities and $23.3 million of unused capacity under the B. Riley committed equity facility, subject to limitations.

Our primary requirements for liquidity and capital are for the Company's material cash requirements, including working capital needs, satisfaction of contractual commitments, investment in expanding our breadth and footprint through acquisitions as well as investment in facilities, equipment, technologies, and research and development for our growth initiatives and general corporate needs.

Our ability to fund our cash needs is dependent upon the successful execution of our business strategy and future operating results. Our future operating results are subject to, among others, general economic conditions, including as a result of heightened inflation, rising interest rates and supply chain pressures, competitive dynamics in our target markets as well as legislative and regulatory factors that may be outside of our control. As part of our business and debt management strategy, we continuously evaluate opportunities to further strengthen our financial and liquidity position, including the issuance of additional equity or debt securities, refinance or otherwise restructure our existing credit facilities, or enter into new financing arrangements. There can be no assurance that any of these actions will be sufficient to allow us to service our debt obligations, meet our debt covenants, or that such actions will not result in an adverse impact on our business. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all.

We believe our existing sources of liquidity will be sufficient to meet our working capital needs and comply with our debt covenants for at least the next twelve months from the date on which our condensed consolidated financial statements were issued.

Indebtedness

Please refer to Note G – Debt of the accompanying notes to the condensed consolidated financial statements for additional information related to the Company's debt obligations.

Contractual Obligations

During the nine months ended September 30, 2023, there were no material changes to our contractual obligations as presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 31, 2023, that were outside the ordinary course of our business.

As of September 30, 2023, the Company entered into an economic development agreement to serve as the anchor tenant at the Novaparke Innovation & Technology Campus in Floyd County, Indiana. In accordance with the agreement, the Company has committed to enter into a lease for a 30,000 square foot property upon completion of construction, thus creating a significant future lease obligation. Construction is not anticipated to be complete until fiscal year 2024, at which time the Company will enter into the associated lease agreement.

Cash Flows

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

	Nine Months Ended	
(in thousands)	**September 30, 2023**	**September 30, 2022**
Cash and cash equivalents at beginning of year	$ 28,316	$ 20,523
Operating activities:		
Net income (loss)	(19,048)	(104,744)
Non-cash adjustments	17,308	76,219
Changes in working capital	(12,720)	1,696
Net cash provided by (used in) operating activities	(14,460)	(26,829)
Net cash provided by (used in) investing activities	(5,214)	(3,432)
Net cash provided by (used in) financing activities	2,294	16,855
Effect of foreign currency rate changes on cash and cash equivalents	(77)	(86)
Net increase (decrease) in cash and cash equivalents	(17,457)	(13,492)
Cash and cash equivalents at end of period	$ 10,859	$ 7,031

Operating activities

Net cash used in operating activities for the nine months ended September 30, 2023 decreased $12.4 million compared to the same period in 2022. The change was primarily due to a decrease in cash used related to the Company's net loss and non-cash adjustments for the nine months ended September 30, 2023 in comparison to the same period in 2022, partially offset by an increase in cash used for working capital related to increases in contract assets of $9.0 million and decreases in deferred revenue of $2.7 million and accounts payable and accrued expenses of $2.2 million. The changes in contract assets and deferred revenue were primarily driven by the timing of billable milestones during the nine months ended September 30, 2023 compared to the same period in 2022. The decrease in accounts payable and accrued expenses is primarily a result of timing of payments and invoice receipt, partially offset by accounts payable and accrued expenses due to the Space NV acquisition.

Investing activities

Net cash used in investing activities increased for the nine months ended September 30, 2023 as compared to the same period in 2022. The increase is primarily due to the Company's capital expenditures related to licensed software for internal-use.

Financing activities

Net cash provided by financing activities for the nine months ended September 30, 2023 decreased $14.6 million compared to the same period in 2022. The decrease was primarily due to $19.9 million related to the repayment of loans during the nine months ended September 30, 2023 compared to $4.5 million in the same period in 2022. The increase in repayment of loans was driven primarily by repayments matching proceeds from the Adams Street Revolving Credit Facility during the nine months ended September 30, 2023 compared to the same period in 2022.

Foreign Currency Exposures

Our operations in Belgium and Luxembourg conduct transactions that are primarily denominated in Euros, which limits our foreign currency exposure. However, changes in exchange rates, and in particular a strengthening of the Euro, will negatively affect the Company's net sales and gross margins as expressed in U.S. dollars.

Critical Accounting Estimates

There have been no material changes to our critical accounting policies and estimates as disclosed in our audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 31, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is a smaller reporting company and is not required to provide the information required under this Item 3.

Item 4. Controls and Procedures

Evaluation of Disclosure 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, which are designed to ensure that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive officer and principal financial officer) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive officer and our principal financial officer have concluded that such disclosure controls and procedures were not effective as of September 30, 2023 due to the material weaknesses in internal control over financial reporting described below.

Material Weaknesses in Internal Control over Financial Reporting

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

We did not maintain an effective control environment, as certain members of senior management failed to consistently message and set certain aspects of an appropriate tone at the top. Specifically, certain members of senior management failed to reinforce the need for compliance with certain of the Company's accounting and finance policies and procedures, including reinforcement of appropriate communication. We also identified that we had an insufficient complement of resources with an appropriate level of accounting knowledge, experience and training commensurate with our structure and financial reporting requirements to appropriately analyze, record and disclose accounting matters timely and accurately, and establish effective processes and internal controls. The limited personnel resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of financial reporting objectives, as demonstrated by, among other things, insufficient segregation of duties in our finance and accounting functions. These material weaknesses contributed to the following additional material weaknesses:

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

- We did not design and maintain effective controls to address the identification of and accounting for certain non-routine, unusual or complex transactions, including the proper application of U.S. GAAP to such transactions. Specifically, we did not design and maintain effective controls to account for purchase business combinations and the valuation of goodwill and long-lived assets, including the appropriate review of the assumptions, data and models used in the forecasted cash flows, used to determine the fair value.

The material weaknesses above did not result in a misstatement to the consolidated financial statements as of December 31, 2022.

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

- program change management controls to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized, and implemented appropriately;
- user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate Company personnel;
- computer operations controls to ensure that critical batch jobs are monitored and data backups are authorized and monitored; and
- testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements.

The IT deficiencies noted above did not result in a misstatement to the consolidated financial statements; however, the deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected.

Additionally, these material weaknesses could result in misstatements of substantially all accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation Plans

We are in the process of implementing measures designed to improve our internal control over financial reporting and remediate the deficiencies that led to the material weaknesses, including tone at the top and other communications training, hiring additional finance and accounting personnel, designing and implementing new control activities, and enhancing existing control activities.

- We reviewed the personnel structure and identified new positions to enhance our accounting and financial reporting team. We have onboarded various individuals during the years ended December 31, 2021 and 2022, and will continue to onboard additional individuals during 2023 to align our personnel to specific areas and responsibilities aimed to alleviate the numerous competing responsibilities currently faced.
- We engaged a third-party global consulting firm to accelerate the design of new controls or enhance existing controls to ensure timely and accurate financial reporting. We have also established an ethics program which requires training and certification for all employees as well as enhances awareness of our whistleblower avenues.
- We are in the process of designing and implementing additional review and communications training procedures within our accounting, finance and program management functions to provide more robust knowledge and understanding of internal control over financial reporting.
- We are in the process of implementing a comprehensive financial closing process checklist with additional layers of reviews and specific controls around non-routine, unusual or complex transactions, including controls over the accounting for purchase business combinations and the valuation of goodwill and long-lived assets.
- We will continue to conduct training and document our processes and procedures, including accounting policies. We are also in the process of standardizing controls, processes and policies across the Company to ensure consistent application including controls over the preparation and review of business performance reviews, account reconciliations, journal entries and contract estimates used in determining the recognition of revenue.
- We are in the process of performing an assessment of all information technology systems which provide data for financial reporting purposes and consolidating systems where appropriate. As part of this assessment, we will be designing, implementing and documenting IT general controls.

We are working to remediate the material weaknesses as efficiently and effectively as possible and expect full remediation will likely go beyond December 31, 2023. At this time, we cannot provide an estimate of costs expected to be incurred in connection with implementing this remediation plan; however, these remediation measures will be time consuming, will result in the Company incurring additional costs, and will place additional demands on our financial and operational resources.

If we are unable to successfully remediate our existing or any future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected; investors may lose confidence in our financial reporting; we could become subject to litigation or investigations by the New York Stock Exchange (“NYSE”), the SEC or other regulatory authorities.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

Management previously identified certain material weaknesses in the Company’s internal control over financial reporting, described as follows:

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

Management has taken the necessary steps to identify and implement changes to the Company’s internal controls over financial reporting to remediate the control deficiencies described above that led to the material weakness. The Company has performed the following remediation efforts to address the material weakness identified:

- We have hired personnel with accounting expertise that has enhanced our accounting and financial reporting team to perform and analyze the risk assessment and identify new and evolving risks of material misstatement in the consolidated financial statements.
- We have designed and executed a precise risk assessment process to consider financial statement risk elements at the financial statement line-item level utilizing both qualitative and quantitative factors.
- We have performed a linkage from the financial statement risk elements to the relevant processes and systems/applications considering significant processes.
- We have considered the macro risk environment and associated it to disclosures and published risk factors.
- We have reviewed the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) 2013 framework to document and enhance entity-level controls.

These actions resulted in an improved internal control environment that was in place for a sufficient period of time to allow for Management to conclude that this material weakness has been fully remediated as of September 30, 2023.

Changes in Internal Control over Financial Reporting

We have remediated the material weakness relating to our internal controls over financial reporting as described above. There have been no other changes in internal control over financial reporting during the three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 Redwire and we intend to defend ourselves vigorously. Excluding pending matters referenced below, the outcome of these matters, individually and in the aggregate, is not expected to have a material impact on our condensed consolidated financial statements.

For additional information on pending matters, please refer to Note J – Commitments and Contingencies of the accompanying notes to the condensed consolidated financial statements. For additional information on the risks associated with the existing and future investigations, lawsuits, arbitration, claims, enforcement actions and other legal proceedings, please refer to Item 1A. “Risk Factors”.

ITEM 1A. RISK FACTORS

As of September 30, 2023, there have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on March 31, 2023.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit Number	Description
3.1	Certificate of Amendment of Certificate of Designation of the Company (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the registrant on November 1, 2023).
31.1	Certification of Chief Executive Officer (Principal Executive Officer) Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer (Principal Financial Officer) Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer (Principal Executive Officer) Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer (Principal Financial Officer) Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

*The certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates them by reference.

SIGNATURES

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

		Redwire Corporation	
Date:	November 8, 2023	By:	/s/ Peter Cannito
		Name:	Peter Cannito
		Title:	Chief Executive Officer and Chairman
			(*Principal Executive Officer*)
Date:	November 8, 2023	By:	/s/ Jonathan Baliff
		Name:	Jonathan Baliff
		Title:	Chief Financial Officer and Director
			(*Principal Financial Officer*)
Date:	November 8, 2023	By:	/s/ Chris Edmunds
		Name:	Chris Edmunds
		Title:	Senior Vice President and Chief Accounting Officer
			(*Principal Accounting Officer*)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter Cannito, Chief Executive Officer and Chairman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2023, of Redwire Corporation;

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:	November 8, 2023	By:	/s/ Peter Cannito
		Name:	Peter Cannito
		Title:	Chief Executive Officer and Chairman
			(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jonathan Baliff, Chief Financial Officer and Director, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2023, of Redwire Corporation;

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:	November 8, 2023	By:	/s/ Jonathan Baliff
		Name:	Jonathan Baliff
		Title:	Chief Financial Officer and Director
			(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Certification Pursuant to Section 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 of Redwire Corporation (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Peter Cannito, Chief Executive Officer and Chairman of the Company, certifies, to the best of his knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date:	November 8, 2023	By:	/s/ Peter Cannito
		Name:	Peter Cannito
		Title:	Chief Executive Officer and Chairman
			(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Certification Pursuant to Section 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 of Redwire Corporation (the “Company”) for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Jonathan Baliff, Chief Financial Officer and Director of the Company, certifies, to the best of his knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date:	November 8, 2023	By:	/s/ Jonathan Baliff
		Name:	Jonathan Baliff
		Title:	Chief Financial Officer and Director
			(Principal Financial Officer)