UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 June 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: 001-40170

TERRAN ORBITAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**98-1572314**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

6800 Broken Sound Parkway NW, Suite 200
Boca Raton, FL 33487
(561) 988-1704

(Address of principal executive offices, including zip code, Registrant's telephone number, including area code)

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Common stock, par value $0.0001 per share	LLAP	New York Stock Exchange
Warrants to purchase one share of common stock, each at an exercise price of $11.50 per share	LLAP 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

As of August 7, 2023, the registrant had 172,377,853 shares of common stock, $0.0001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

TERRAN ORBITAL CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share amounts)

	June 30, 2023	December 31, 2022
Assets:		
Cash and cash equivalents	$ 48,554	$ 93,561
Accounts receivable, net of allowance for credit losses of $191 and $764 as of June 30, 2023 and December 31, 2022, respectively	5,432	4,754
Contract assets, net	4,628	6,763
Inventory	28,153	24,133
Prepaid expenses and other current assets	12,376	9,710
Total current assets	**99,143**	**138,921**
Property, plant, and equipment, net	41,571	24,743
Other assets	18,249	18,990
Total assets	**$ 158,963**	**$ 182,654**
Liabilities and shareholders' deficit:		
Current portion of long-term debt	$ 11,331	$ 7,739
Accounts payable	24,299	21,188
Contract liabilities	18,047	27,228
Reserve for anticipated losses on contracts	858	2,860
Accrued expenses and other current liabilities	15,690	11,721
Total current liabilities	**70,225**	**70,736**
Long-term debt	157,521	142,620
Warrant and derivative liabilities	37,919	39,950
Other liabilities	19,017	20,769
Total liabilities	**284,682**	**274,075**
Commitments and contingencies (Note 12)		
Shareholders' deficit:		
Preferred stock - authorized 50,000,000 shares of $0.0001 par value as of June 30, 2023 and December 31, 2022; zero issued and outstanding	-	-
Common stock - authorized 600,000,000 and 300,000,000 shares of $0.0001 par value as of June 30, 2023 and December 31, 2022, respectively; issued and outstanding shares of 165,189,534 and 142,503,771 as of June 30, 2023 and December 31, 2022, respectively	17	14
Additional paid-in capital	317,871	269,574
Accumulated deficit	(443,743)	(361,168)
Accumulated other comprehensive income	136	159
Total shareholders' deficit	**(125,719)**	**(91,421)**
Total liabilities and shareholders' deficit	**$ 158,963**	**$ 182,654**

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

TERRAN ORBITAL CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	$ 32,232	$ 21,364	$ 60,430	$ 34,484
Cost of sales	31,430	25,038	61,027	40,991
Gross profit (loss)	**802**	**(3,674)**	**(597)**	**(6,507)**
Selling, general, and administrative expenses	28,732	29,370	61,262	59,587
Loss from operations	**(27,930)**	**(33,044)**	**(61,859)**	**(66,094)**
Interest expense, net	11,729	6,937	22,663	9,860
Loss on extinguishment of debt	-	-	-	23,141
Change in fair value of warrant and derivative liabilities	(11,486)	(8,177)	(2,031)	3,676
Other (income) expense	(26)	468	83	871
Loss before income taxes	**(28,147)**	**(32,272)**	**(82,574)**	**(103,642)**
(Benefit from) provision for income taxes	(17)	2	1	4
Net loss	**(28,130)**	**(32,274)**	**(82,575)**	**(103,646)**
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(43)	142	(23)	189
Total comprehensive loss	**$ (28,173)**	**$ (32,132)**	**$ (82,598)**	**$ (103,457)**
Weighted-average shares outstanding				
Basic and diluted	156,502,662	142,378,037	150,316,749	113,173,237
Net loss per share				
Basic and diluted	$ (0.18)	$ (0.23)	$ (0.55)	$ (0.92)

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

TERRAN ORBITAL CORPORATION
Condensed Consolidated Statements of Shareholders’ Deficit (Unaudited)
(In thousands, except share amounts)

Three Months Ended June 30, 2023

	Mezzanine Equity Redeemable Convertible Preferred Stock		Shareholders' Deficit Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Deficit
Balance as of March 31, 2023	**-**	**$ -**	**144,680,223**	**$ 14**	**$ 280,095**	**$ (415,613)**	**$ 179**	**$ (135,325)**
Net loss	-	-	-	-	-	(28,130)	-	(28,130)
Other comprehensive loss, net of tax	-	-	-	-	-	-	(43)	(43)
Issuance of common stock, net of issuance costs	-	-	16,000,000	2	10,724	-	-	10,726
Issuance of warrants, net of issuance costs	-	-	-	-	23,398	-	-	23,398
Share-based compensation	-	-	-	-	3,589	-	-	3,589
Settlement of vested restricted stock units	-	-	484,886	-	-	-	-	-
Exercise of equity-classified warrants	-	-	3,965,000	1	-	-	-	1
Exercise of stock options	-	-	59,425	-	65	-	-	65
Balance as of June 30, 2023	**-**	**$ -**	**165,189,534**	**$ 17**	**$ 317,871**	**$ (443,743)**	**$ 136**	**$ (125,719)**

Three Months Ended June 30, 2022

	Mezzanine Equity Redeemable Convertible Preferred Stock		Shareholders' Deficit Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Deficit
Balance as of March 31, 2022	**-**	**$ -**	**137,295,455**	**$ 14**	**$ 234,384**	**$ (268,560)**	**$ 11**	**$ (34,151)**
Net loss	-	-	-	-	-	(32,274)	-	(32,274)
Other comprehensive income, net of tax	-	-	-	-	-	-	142	142
Share-based compensation	-	-	-	-	13,815	-	-	13,815
Settlement of vested restricted stock units	-	-	295,353	-	-	-	-	-
Other	-	-	-	-	(66)	-	-	(66)
Balance as of June 30, 2022	**-**	**$ -**	**137,590,808**	**$ 14**	**$ 248,133**	**$ (300,834)**	**$ 153**	**$ (52,534)**

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

TERRAN ORBITAL CORPORATION
Condensed Consolidated Statements of Shareholders’ Deficit (Unaudited)
(In thousands, except share amounts)

	Six Months Ended June 30, 2023							
	Mezzanine Equity				Shareholders' Deficit			
	Redeemable Convertible Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Deficit
Balance as of December 31, 2022	**-**	**$ -**	**142,503,771**	**$ 14**	**$ 269,574**	**$ (361,168)**	**$ 159**	**$ (91,421)**
Net loss	-	-	-	-	-	(82,575)	-	(82,575)
Other comprehensive loss, net of tax	-	-	-	-	-	-	(23)	(23)
Issuance of common stock, net of issuance costs			16,000,000	2	10,724			10,726
Issuance of warrants, net of issuance costs	-	-	-	-	23,398	-	-	23,398
Share-based compensation	-	-	-	-	13,755	-	-	13,755
Settlement of vested restricted stock units	-	-	2,150,219	-	-	-	-	-
Exercise of equity-classified warrants	-	-	3,965,000	1	-	-	-	1
Exercise of stock options	-	-	570,544	-	420	-	-	420
Balance as of June 30, 2023	**-**	**$ -**	**165,189,534**	**$ 17**	**$ 317,871**	**$ (443,743)**	**$ 136**	**$ (125,719)**

	Six Months Ended June 30, 2022							
	Mezzanine Equity				Shareholders' Deficit			
	Redeemable Convertible Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Deficit
Balance as of December 31, 2021	**396,870**	**$ 8,000**	**2,849,414**	**$ -**	**$ 97,745**	**$ (197,066)**	**$ (36)**	**$ (99,357)**
Retrospective application of reverse recapitalization	10,550,816	-	75,751,869	8	(8)	-	-	-
Balance as of December 31, 2021 - Recast	**10,947,686**	**$ 8,000**	**78,601,283**	**$ 8**	**$ 97,737**	**$ (197,066)**	**$ (36)**	**$ (99,357)**
Adoption of accounting standard, net of tax	-	-	-	-	-	(122)	-	(122)
Net loss	-	-	-	-	-	(103,646)	-	(103,646)
Other comprehensive income, net of tax	-	-	-	-	-	-	189	189
Conversion of redeemable convertible preferred stock into common stock	(10,947,686)	(8,000)	10,947,686	1	7,999	-	-	8,000
Net settlement of liability-classified warrants into common stock	-	-	694,873	-	7,616	-	-	7,616
Net settlement of equity-classified warrants into common stock	-	-	22,343,698	2	(2)	-	-	-
Issuance of common stock in connection with the Tailwind Two Merger and PIPE Investment, net of issuance costs	-	-	16,114,695	2	6,926	-	-	6,928
Issuance of common stock in connection with financing transactions, net of issuance costs	-	-	4,325,000	1	40,733	-	-	40,734
Reclassification of liability-classified warrants and derivatives to equity-classified	-	-	-	-	11,007	-	-	11,007
Issuance of contingently issuable common stock	-	-	4,095,569	-	44,887	-	-	44,887
Share-based compensation	-	-	-	-	31,150	-	-	31,150
Settlement of vested restricted stock units	-	-	295,353	-	-	-	-	-
Exercise of stock options	-	-	172,651	-	146	-	-	146
Other	-	-	-	-	(66)	-	-	(66)
Balance as of June 30, 2022	**-**	**$ -**	**137,590,808**	**$ 14**	**$ 248,133**	**$ (300,834)**	**$ 153**	**$ (52,534)**

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

TERRAN ORBITAL CORPORATION
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Six Months Ended June 30, 2023	2022
Cash flows from operating activities:		
Net loss	$ (82,575)	$ (103,646)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,708	1,701
Non-cash interest expense	14,716	4,934
Share-based compensation expense	13,755	31,150
Provision for losses on receivables and inventory	250	173
Loss on extinguishment of debt	-	23,141
Change in fair value of warrant and derivative liabilities	(2,031)	3,676
Amortization of operating right-of-use assets	576	693
Other non-cash, net	116	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(766)	(6,436)
Contract assets	2,218	(4,843)
Inventory	(3,808)	(4,696)
Accounts payable	1,078	9,514
Contract liabilities	(9,332)	16,188
Reserve for anticipated losses on contracts	(2,002)	489
Accrued interest	6	(2,330)
Other, net	658	(2,278)
Net cash used in operating activities	(64,433)	(32,570)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(12,372)	(9,363)
Net cash used in investing activities	(12,372)	(9,363)
Cash flows from financing activities:		
Proceeds from long-term debt	886	35,942
Proceeds from warrants and derivatives	24,924	42,247
Proceeds from Tailwind Two Merger and PIPE Investment	-	58,424
Proceeds from issuance of common stock	12,195	14,791
Repayment of long-term debt	(3,836)	(29,049)
Payment of issuance costs	(2,864)	(45,303)
Proceeds from exercise of stock options	441	145
Net cash provided by financing activities	31,746	77,197
Effect of exchange rate fluctuations on cash and cash equivalents	52	(290)
Net (decrease) increase in cash and cash equivalents	(45,007)	34,974
Cash and cash equivalents at beginning of period	93,561	27,325
Cash and cash equivalents at end of period	$ 48,554	$ 62,299
Non-cash investing and financing activities:		
Interest capitalized to property, plant, and equipment not yet paid	$ -	$ 607
Purchases of property, plant, and equipment not yet paid	3,269	819
Depreciation and amortization capitalized to construction-in-process	-	130
Issuance costs not yet paid	394	3,078
Non-cash exchange and extinguishment of long-term debt	-	40,432
Conversion of redeemable convertible preferred stock into common stock	-	8,000
Net settlement of liability-classified warrants into common stock	-	7,616
Net settlement of equity-classified warrants into common stock	-	(2)
Non-cash issuance of common stock in connection with PIPE Investment	-	10,060
Non-cash issuance of common stock in connection with financing transactions	-	26,304
Reclassification of liability-classified warrants and derivatives to equity-classified	-	11,007
Issuance of contingently issuable common stock	-	44,887

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

Note 1 Organization and Summary of Significant Accounting Policies

Organization and Business

Terran Orbital Corporation, formerly known as Tailwind Two Acquisition Corp. ("Tailwind Two"), together with its wholly-owned subsidiaries (the "Company"), is a leading manufacturer of satellite products primarily serving the aerospace and defense industries. The Company provides end-to-end satellite solutions by combining satellite design, production, launch planning, mission operations, and on-orbit support to meet the needs of its military, civil, and commercial customers. The Company has a foreign subsidiary based in Torino, Italy.

Tailwind Two Merger

Prior to March 25, 2022, Tailwind Two was a publicly listed special purpose acquisition company incorporated as a Cayman Islands exempted company. On March 25, 2022, Tailwind Two acquired Terran Orbital Operating Corporation, formerly known as Terran Orbital Corporation ("Legacy Terran Orbital") (the "Tailwind Two Merger"). In connection with the Tailwind Two Merger, Tailwind Two filed a notice of deregistration with the Cayman Islands Registrar of Companies and filed a certificate of incorporation and a certificate of corporate domestication with the Secretary of State of the State of Delaware, resulting in Tailwind Two becoming a Delaware corporation and changing its name from Tailwind Two to Terran Orbital Corporation. The Tailwind Two Merger resulted in Legacy Terran Orbital becoming a wholly-owned subsidiary of Terran Orbital Corporation.

As a result of the Tailwind Two Merger, all of Legacy Terran Orbital's issued and outstanding common stock was converted into shares of Terran Orbital Corporation's common stock using an exchange ratio of 27.585 shares of Terran Orbital Corporation's common stock per each share of Legacy Terran Orbital's common stock. In addition, Legacy Terran Orbital's convertible preferred stock and certain warrants were exercised and converted into shares of Legacy Terran Orbital's common stock immediately prior to the Tailwind Two Merger, and in turn, were converted into shares of Terran Orbital Corporation's common stock as a result of the Tailwind Two Merger. Further, in connection with the Tailwind Two Merger, Legacy Terran Orbital's share-based compensation plan and related share-based compensation awards were cancelled and exchanged or converted, as applicable, with a new share-based compensation plan and related share-based compensation awards of Terran Orbital Corporation. In connection with the Tailwind Two Merger, the Company entered into certain debt financing transactions that resulted in a loss on extinguishment of debt of $23.1 million during the six months ended June 30, 2022.

While Legacy Terran Orbital became a wholly-owned subsidiary of Terran Orbital Corporation, Legacy Terran Orbital was deemed to be the acquirer in the Tailwind Two Merger for accounting purposes. Accordingly, the Tailwind Two Merger was accounted for as a reverse recapitalization, in which case the condensed consolidated financial statements of the Company represent a continuation of Legacy Terran Orbital and the issuance of common stock in exchange for the net assets of Tailwind Two recognized at historical cost and no recognition of goodwill or other intangible assets. Operations prior to the Tailwind Two Merger are those of Legacy Terran Orbital and all share and per-share data included in these condensed consolidated financial statements have been retrospectively adjusted to give effect to the Tailwind Two Merger. In addition, the number of shares subject to, and the exercise price of, the Company's outstanding options and warrants were adjusted to reflect the Tailwind Two Merger. The treatment of the Tailwind Two Merger as a reverse recapitalization was based upon the pre-merger shareholders of Legacy Terran Orbital holding the majority of the voting interests of Terran Orbital Corporation, Legacy Terran Orbital's existing management team serving as the initial management team of Terran Orbital Corporation, Legacy Terran Orbital's appointment of the majority of the initial board of directors of Terran Orbital Corporation, and Legacy Terran Orbital's operations comprising the ongoing operations of the Company.

In connection with the Tailwind Two Merger, approximately $29 million of cash and marketable securities held in trust, net of redemptions by Tailwind Two's public shareholders, became available for use by the Company as well as proceeds received from the contemporaneous sale of common stock in connection with the closing of a PIPE investment with a contractual amount of $51 million (the "PIPE Investment"). In addition, the Company received additional proceeds from the issuance of debt contemporaneously with the Tailwind Two Merger. The cash raised was used for general corporate purposes, the partial paydown of debt, the payment of transaction costs and the payment of other costs directly or indirectly attributable to the Tailwind Two Merger.

Beginning on March 28, 2022, the Company's common stock and public warrants began trading on the New York Stock Exchange (the "NYSE") under the symbols "LLAP" and "LLAP WS," respectively.

Basis of Presentation and Significant Accounting Policies

The condensed consolidated financial statements included herein are unaudited, but in the opinion of management, they include all adjustments, consisting of normal recurring adjustments, necessary to summarize fairly the Company's financial position, results of operations, and cash flows for the interim periods presented. The interim results reported in these condensed consolidated financial statements should not be taken as indicative of results that may be expected for future interim periods or the full year. For a more comprehensive understanding of the Company and its interim results, these condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021 included in its Annual Report on Form 10-K, which was filed with the United States ("U.S.") Securities and Exchange Commission (the "SEC") on March 23, 2023 (the "2022 Annual Report"). The condensed consolidated balance sheet as of December 31, 2022 included herein was derived from the audited consolidated financial statements as of that date but does not include all the footnote disclosures from the annual consolidated financial statements.

The condensed consolidated financial statements have been prepared in U.S. dollars in accordance with generally accepted accounting principles in the U.S. ("GAAP") and include the accounts of Terran Orbital Corporation and its subsidiaries. All intercompany transactions have been eliminated. The Company's accounting policies used in the preparation of these condensed consolidated financial statements do not differ from those used for the annual consolidated financial statements, unless otherwise noted. Certain prior period amounts have been reclassified to conform with current period presentation.

The Company evaluates and reports its segment information based on the manner in which its Chief Executive Officer, who is the chief operating decision maker (the "CODM"), evaluates performance and allocates resources. Beginning in the fourth quarter of 2022, the Company reports its results as a single operating and reportable segment on a consolidated basis. Where applicable, prior periods have been retrospectively adjusted to reflect the Company's current operating and reportable segment structure.

There were no recently issued or recently adopted accounting pronouncements that had or are expected to have a material effect on the condensed consolidated financial statements.

Use of Estimates

The preparation of the condensed consolidated financial statements in accordance with GAAP requires the Company to select accounting policies and make estimates that affect amounts reported in the condensed consolidated financial statements and the accompanying notes. The Company's estimates are based on the relevant information available at the end of each period. Actual results could differ materially from these estimates under different assumptions or market conditions.

COVID-19 Pandemic

During March 2020, the World Health Organization (the "WHO") declared the outbreak of a novel coronavirus as a pandemic (the "COVID-19 Pandemic"). The COVID-19 Pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption in the financial and capital markets.

The COVID-19 Pandemic has contributed to a worldwide shortage of electronic components which has resulted in longer than historically experienced lead times for such electronic components. The reduced availability to receive electronic components used in the Company's operations has negatively affected its timing and ability to deliver products and services to customers as well as increased its costs in recent periods. In an effort to manage this disruption to its supply chain, the Company has focused on accumulating critical components to ensure an appropriate level of supply is available when needed.

The Company considered the emergence and pervasive economic impact of the COVID-19 Pandemic in its assessment of its financial position, results of operations, cash flows, and certain accounting estimates as of and for the periods presented. The U.S. Government allowed the national public health emergency declaration related to the COVID-19 Pandemic to expire on May 11, 2023, and the WHO ended the global emergency status for the COVID-19 Pandemic on May 5, 2023.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less from the time of purchase.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following as of the dates presented:

(in thousands)	June 30, 2023	December 31, 2022
Payroll-related accruals	$ 6,648	$ 5,671
Current operating lease liabilities	1,090	971
Accrued interest	2,112	2,107
Other current liabilities	5,840	2,972
Accrued expenses and other current liabilities	**$ 15,690**	**$ 11,721**

Research and Development

Research and development includes materials, labor, and overhead allocations attributable to the development of new products and solutions and significant improvements to existing products and solutions. Research and development costs are expensed as incurred and recognized in selling, general, and administrative expenses in the condensed consolidated statements of operations and comprehensive loss. Research and development expense was $5.2 million and $4.3 million during the three months ended June 30, 2023 and 2022, respectively, and $12.7 million and $6.2 million during the six months ended June 30, 2023 and 2022, respectively.

Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and contract assets.

The majority of the Company’s cash and cash equivalents are held at major financial institutions. Certain account balances exceed the Federal Deposit Insurance Corporation insurance limits of $250,000 per account. As a result, there is a concentration of credit risk related to amounts in excess of the insurance limits. The Company regularly monitors the financial stability of these financial institutions and believes that there is no exposure to any significant credit risk in cash and cash equivalents.

Concentrations of credit risk with respect to accounts receivable and contract assets are limited because a large portion of our balances are related to (i) reputable companies with significant financial resources or (ii) customer programs in which the U.S. Government is the ultimate customer.

A small number of customers and contracts historically have represented a significant portion of the Company's consolidated revenue. Lockheed Martin Corporation (“Lockheed Martin”) represented approximately 84% and 70% of consolidated revenue during the three months ended June 30, 2023 and 2022, respectively, and 79% and 73% during the six months ended June 30, 2023 and 2022, respectively. There were no other individual customers who accounted for more than 10% of the Company’s revenue during the periods presented.

The table below presents individual customers who accounted for more than 10% of the Company's combined accounts receivable, net of allowance for credit losses, and contract assets, net of allowance for credit losses, as of the dates presented:

	June 30, 2023	December 31, 2022
Customer A	35%	42%
Customer B	0%	12%
Customer C	13%	11%
Customer D	19%	3%
Customer E	11%	3%
Total	**78%**	**71%**

Note 2 Revenue and Receivables

The Company applies the following five steps in order to recognize revenue from contracts with customers: (i) identify the contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer.

At contract inception, the Company assesses whether the goods or services promised within the contract represent a performance obligation. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation on a relative basis using the best estimate of the stand-alone selling price of each performance obligation, which is estimated using the expected-cost-plus-margin approach. Generally, the Company's contracts with customers are structured such that the customer has the option to purchase additional goods or services. Customer options to purchase additional goods or services do not represent a separate performance obligation as the prices for such options reflect the stand-alone selling prices for the additional goods or services. Contracts are generally priced on a firm-fixed price basis, cost-plus fee basis, or time and materials basis.

The Company recognizes the transaction price allocated to the respective performance obligation as revenue as the performance obligation is satisfied. The majority of the Company's contracts with customers relate to the creation of specialized assets that do not have alternative use and entitle the Company to an enforceable right to payment for performance completed to date. Accordingly, the Company generally measures progress towards the satisfaction of a performance obligation over time using the cost-to-cost input method.

Payments for costs not yet incurred or for costs incurred in anticipation of providing a good or service under a contract with a customer in the future are included in prepaid expenses and other current assets on the condensed consolidated balance sheets.

Estimate-at-Completion ("EAC")

The recognition of revenue over time using the cost-to-cost input method is dependent on the Company's cost estimate-at-completion ("EAC"), which is subject to many variables and requires significant judgment. EAC represents the total estimated cost-at-completion and is comprised of direct material, direct labor and manufacturing overhead applicable to a performance obligation. There is a company-wide standard and periodic EAC process in which the Company reviews the progress and execution of outstanding performance obligations. As part of this process, the Company reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include the Company's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. The Company must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution by subcontractors, the availability and timing of funding from customers and overhead cost rates, among other variables.

Based on the results of the periodic EAC process, any adjustments to revenue, cost of sales, and the related impact to gross profit are recognized on a cumulative catch-up basis in the period they become known. These adjustments may result from positive program performance, and may result in an increase in gross profit during the performance of individual performance obligations, if it is determined the Company will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations or realizing related opportunities. Likewise, these adjustments may result in a decrease in gross profit if it is determined the Company will not be successful in mitigating these risks or realizing related opportunities. A significant change in one or more of these estimates could affect the profitability of one or more of the Company's performance obligations.

Contract modifications often relate to changes in contract specifications and requirements. Contract modifications are considered to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of the Company's contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price, and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue either as an increase in or a reduction of revenue on a cumulative catch-up basis.

Some of the Company's long-term contracts contain award fees, incentive fees, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. Variable consideration is estimated at the most likely amount to which the Company is expected to be entitled. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current, and forecasted) that is reasonably available. The unfunded portion of enforceable contracts are accounted for as variable consideration.

For contracts in which the U.S. Government is the ultimate customer, the Company follows U.S. Government procurement and accounting standards in assessing the allowability and the allocability of costs to contracts. Due to the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if different assumptions were used or if the underlying circumstances were to change. The Company monitors the consistent application of its critical accounting policies and compliance with contract accounting. Business operations personnel conduct periodic contract status and performance reviews. When adjustments in estimated contract revenues or costs are determined, any material changes from prior estimates are included in earnings in the current period. Also, regular and recurring evaluations of contract cost, scheduling and technical matters are performed by Company personnel who are independent from the business operations personnel performing work under the contract. Costs incurred and allocated to contracts with the U.S. Government are subject to audit by the Defense Contract Audit Agency for compliance with regulatory standards.

Disaggregation of Revenue

Below is a summary of the Company's accounting by type of revenue:

- Mission Support: Mission support services primarily relate to the integrated design, manufacture, and assembly of satellites for customers.
- Launch Support: Launch support services relate to the assistance the Company provides in the process of launching a satellite into space by identifying and securing launch opportunities with launch providers as well as coordinating and managing the activities leading up to the launch event on behalf of customers.
- Operations: Operations relates to the management, operations, and communication of information of satellites that are on-orbit on behalf of a customer.
- Studies, Design and Other: Studies, design and other services primarily relate to professional engineering feasibility studies and preliminary design services for customers.

The following tables present the Company's disaggregated revenue by offering and customer type for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2023	2022	2023	2022
Mission support	$ 31,546	$ 19,621	$ 58,136	$ 32,391
Launch support	(59)	560	1,028	596
Operations	175	541	369	733
Studies, design and other	570	642	897	764
Revenue	**$ 32,232**	**$ 21,364**	**$ 60,430**	**$ 34,484**

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2023	2022	2023	2022
U.S. Government contracts				
Fixed price	$ 25,924	$ 12,176	$ 47,476	$ 20,668
Cost-plus fee and other	1,675	2,816	3,363	5,088
	27,599	14,992	50,839	25,756
Foreign government contracts				
Fixed price	1,601	1,055	3,079	1,611
Commercial contracts				
Fixed price, U.S.	759	4,427	2,035	6,077
Fixed price, International	1,048	890	3,202	1,040
Cost-plus fee and other, U.S.	1	-	51	-
Cost-plus fee and other, International	1,224	-	1,224	-
	3,032	5,317	6,512	7,117
Revenue	**$ 32,232**	**$ 21,364**	**$ 60,430**	**$ 34,484**

Remaining Performance Obligations

Revenue from remaining performance obligations is calculated as the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period on executed contracts, including both funded (firm orders for which funding is authorized and appropriated) and unfunded portions of such contracts. Remaining performance obligations do not include unexercised contract options and potential orders under indefinite delivery/indefinite quantity contracts.

During February 2023, the Company entered into an agreement with Rivada Space Networks GmbH ("Rivada") providing for the development, production, and operation of 300 satellites, inclusive of 12 in-orbit spares and ground station equipment, for a total purchase price of $2.4 billion (the "Rivada Agreement"). The agreement also includes options for additional satellites, equipment, and services, including an option for the purchase of an additional 300 satellites. Performance under the agreement will be split into a developmental phase, with amounts billed on a time and materials basis, and a firm fixed price production phase. Rivada has an option to terminate the agreement for convenience at any time and for any reason, which would result in a termination fee for work performed up to such termination. In addition, the agreement includes termination provisions for default in the event of missed delivery targets or deadlines, insolvency, or other failures to perform, which could result in the refund of all amounts paid up to such termination. Whether the Company ultimately recognizes revenue and profit on this contract is subject to a number of uncertainties including, among other things, its ability to successfully perform its obligations, increase its manufacturing capacity, and deliver operational satellites in a timely manner and Rivada's continuing ability to fund contract performance and maintain its regulatory licenses for its operations. The amount of revenue recognized under the Rivada Agreement was not material for the three and six months ended June 30, 2023.

As of June 30, 2023, the Company had approximately $2.6 billion of remaining performance obligations, of which $2.4 billion is related to the Rivada Agreement. The Company estimates that approximately 80% of the remaining performance obligations will be recognized as revenue by December 31, 2025 and the remainder by December 31, 2027.

Contract Assets and Contract Liabilities

For each of the Company’s contracts with customers, the timing of revenue recognition, customer billings, and cash collections results in a net contract asset or liability at the end of each reporting period.

Fixed-price contracts are typically billed to the customer either using progress payments, whereby amounts are billed monthly as costs are incurred or work is completed, or performance-based payments, which are based upon the achievement of specific, measurable events or accomplishments defined and valued at contract inception. Cost-type contracts are typically billed to the customer on a monthly or semi-monthly basis.

Contract assets

Contract assets relate to instances in which revenue recognized exceeds amounts billed to customers and are reclassified to accounts receivable when the Company has an unconditional right to the consideration and bills the customer. Contract assets are classified as current and non-current based on the estimated timing in which the Company will bill the customer and are not considered to include a significant financing component as the payment terms are intended to protect the customer in the event the Company does not perform on its obligations under the contract.

The Company records an allowance for credit losses against its contract assets for amounts not expected to be recovered. The allowance is recognized at inception and is reassessed each reporting period. The allowance for credit losses on contract assets was not material for the periods presented.

Contract assets from products and services for which the U.S. Government is the ultimate customer was $1.9 million and $5.3 million as of June 30, 2023 and December 31, 2022, respectively.

The following is a summary of contract assets, net, recognized in the condensed consolidated balance sheets as of the dates presented:

(in thousands)	**June 30, 2023**	**December 31, 2022**
Contract assets, gross	$ 4,676	$ 6,840
Allowance for credit losses	(48)	(77)
Contract assets, net	**$ 4,628**	**$ 6,763**

As of June 30, 2023 and December 31, 2022, all contract assets were classified as current assets.

There were no material impairments of contract assets during the three or six months ended June 30, 2023 or 2022.

Contract liabilities

Contract liabilities relate to advance payments and billings in excess of revenue recognized and are recognized into revenue as the Company satisfies the underlying performance obligations. Contract liabilities are classified as current and non-current based on the estimated timing in which the Company will satisfy the underlying performance obligations and are not considered to include a significant financing component as they are generally utilized to procure materials needed to satisfy a performance obligation or are used to ensure the customer meets contractual requirements.

As of June 30, 2023 and December 31, 2022, substantially all contract liabilities were classified as current liabilities.

During the six months ended June 30, 2023 and 2022, the Company recognized revenue of $25.9 million and $15.4 million, respectively, that was previously included in the beginning balance of contract liabilities.

Accounts Receivable

Accounts receivable represent unconditional rights to consideration due from customers in the ordinary course of business and are generally due in one year or less. Accounts receivable are recorded at amortized cost less an allowance for credit losses, which is based on the Company's assessment of the collectability of its accounts receivable. The Company reviews the adequacy of the allowance for credit losses by considering the age of each outstanding invoice and the collection history of each customer. Accounts receivable that are deemed uncollectible are charged against the allowance for credit losses when identified.

Accounts receivable from products and services for which the U.S. Government is the ultimate customer was $3.1 million and $1.1 million as of June 30, 2023 and December 31, 2022, respectively.

The following table presents changes in the allowance for credit losses for the periods presented:

	Six Months Ended June 30,	
(in thousands)	**2023**	**2022**
Beginning balance	$ 764	$ 945
Adoption of CECL	-	39
Provision for credit losses	127	2
Write-offs	(700)	(329)
Ending balance	**$ 191**	**$ 657**

Reserve for Anticipated Losses on Contracts

When the estimated cost-at-completion exceeds the estimated revenue to be earned for a performance obligation, the Company records a reserve for the anticipated losses in the period the loss is determined. The reserve for anticipated losses on contracts is presented as a current liability in the condensed consolidated balance sheets and as a component of cost of sales in the condensed consolidated statements of operations and comprehensive loss in accordance with Accounting Standards Codification ("ASC") 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*.

The Company recorded decreases in cost of sales related to the reserve for anticipated losses on contracts of $0.3 million and $2.0 million during the three and six months ended June 30, 2023, respectively, and increases in cost of sales of $0.4 million and $0.5 million during the three and six months ended June 30, 2022, respectively.

Note 3 Inventory

Inventory consists of parts and sub-assemblies that are ultimately consumed in the manufacturing and final assembly of satellites. When an item in inventory has been identified and incorporated into a specific satellite, the cost of the sub-assembly is charged to cost of sales in the condensed consolidated statements of operations and comprehensive loss. Inventory is measured at the lower of cost or net realizable value. The cost of inventory includes direct material, direct labor, and manufacturing overhead and is determined on a first-in-first-out basis. Inventory is presented net of an allowance for losses associated with excess and obsolete items, which is estimated based on the Company's current knowledge with respect to inventory levels, planned production, and customer demand.

The components of inventory as of the dates presented were as follows:

(in thousands)	**June 30, 2023**	**December 31, 2022**
Raw materials	$ 20,520	$ 19,194
Work-in-process	7,633	4,939
Total inventory	**$ 28,153**	**$ 24,133**

Note 4 Property, Plant, and Equipment, net

Property, plant, and equipment, net is stated at historical cost less accumulated depreciation. Cost for company-owned satellite assets includes amounts related to design, construction, launch, and commission. Cost for ground stations includes amounts related to construction and testing. Interest is capitalized on certain qualifying assets that take a substantial period of time to develop for their intended use. Depreciation expense is calculated using the sum-of-the-years' digits or straight-line method over the estimated useful lives of the related assets as follows:

Machinery and equipment	5-7 years
Satellites	3-5 years
Ground station equipment	5-7 years
Office equipment and furniture	5-7 years
Computer equipment and software	3-5 years
Leasehold improvements	Shorter of the estimated useful life or remaining lease term

The determination of the estimated useful life of company-owned satellites involves an analysis that considers design life, random part failure probabilities, expected component degradation and cycle life, predicted fuel consumption and experience with satellite parts, vendors and similar assets.

Depreciation expense was $1.8 million and $0.9 million during the three months ended June 30, 2023 and 2022, respectively, and $2.7 million and $1.7 million during the six months ended June 30, 2023 and 2022, respectively. Repairs and maintenance expenditures are expensed when incurred.

The gross carrying amount, accumulated depreciation, and net carrying amount of property, plant, and equipment, net as of the dates presented were as follows:

(in thousands)	**June 30, 2023**	**December 31, 2022**
Machinery and equipment	$ 20,782	$ 13,066
Satellites	2,209	2,209
Ground station equipment	2,020	1,944
Office equipment and furniture	3,762	2,958
Software	899	240
Leasehold improvements	10,658	9,734
Construction-in-process	19,193	9,467
Property, plant, and equipment, gross	**59,523**	**39,618**
Accumulated depreciation	(17,952)	(14,875)
Property, plant, and equipment, net	**$ 41,571**	**$ 24,743**

Construction-in-process primarily includes leasehold improvements, machinery, and ground station equipment not yet placed into service.

The Company reviews property, plant, and equipment, net for impairment whenever events or changes in business circumstances indicate that the net carrying amount of an asset or asset group may not be fully recoverable. The Company groups assets at the lowest level for which cash flows are separately identified. Recoverability is measured by a comparison of the net carrying amount of the asset group to its expected future undiscounted cash flows. If the expected future undiscounted cash flows of the asset group are less than its net carrying amount, an impairment loss is recognized based on the amount by which the net carrying amount exceeds the fair value less costs to sell. The calculation of the fair value less costs to sell of an asset group is based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk.

There were no impairments of property, plant, and equipment during the three and six months ended June 30, 2023 and 2022.

Note 5 Debt

Long-term debt (including accrued interest to be paid-in-kind) as of the presented periods was comprised of the following:

(in thousands)

Description	Issued	Maturity	Interest Rate	Interest Payable	June 30, 2023	December 31, 2022
Francisco Partners Facility	November 2021	April 2026	9.25%	Quarterly	$120,023	$120,023
Lockheed Martin Rollover Debt	March 2021	April 2026	9.25%	Quarterly	25,000	25,000
Beach Point Rollover Debt	March 2021	April 2026	11.25%	Quarterly	32,056	31,741
Convertible Notes due 2027	October 2022	October 2027	10.00%	Quarterly	106,799	101,699
PIPE Investment Obligation	March 2022	December 2025	N/A	N/A	20,625	22,500
Equipment financings(1)					1,637	859
Finance leases(2)					5,285	411
Unamortized deferred issuance costs					(2,893)	(3,073)
Unamortized discount on debt					(139,680)	(148,801)
Total debt					**168,852**	**150,359**
Current portion of long-term debt					11,331	7,739
Long-term debt					**$157,521**	**$142,620**

(1) - Consists of equipment financing debt agreements, primarily entered into during 2023, with maturities through August 2028, annual interest rates ranging from 6.25% to 20.05%, and requiring monthly payments of interest and principal.
(2) - Refer to Note 14 “Leases” for further discussion.

There were no significant changes in the Company’s long-term debt, except for the commencement of certain machinery and equipment finance leases, during the six months ended June 30, 2023. In July 2023, the Company paid $1.875 million related to the PIPE Investment Obligation, which was outstanding as of June 30, 2023.

Note 6 Warrants and Derivatives

The Company’s warrants and derivatives consist of freestanding financial instruments and embedded derivatives requiring bifurcation issued in connection with the Company’s debt and equity financing transactions. The Company does not have any derivatives designated as hedging instruments.

The Company evaluates whether each warrant or derivative represents a liability-classified financial instrument within the scope of ASC 480, *Distinguishing Liabilities from Equity*, or either a liability-classified or equity-classified financial instrument within the scope of ASC 815, *Derivatives and Hedging*.

Warrants and derivatives classified as liabilities are recognized at fair value in the condensed consolidated balance sheets and are remeasured at fair value as of each reporting period with changes in fair value recorded in the condensed consolidated statements of operations and comprehensive loss. Warrants and derivatives classified as equity are recognized at fair value in additional paid-in capital in the condensed consolidated balance sheets and are not subsequently remeasured.

Liability-classified Warrants and Derivatives

The fair values of liability-classified warrants and derivatives recorded in warrant and derivative liabilities on the condensed consolidated balance sheets as of the presented periods were as follows:

(in thousands, except share and per share amounts)	Number of Issuable Shares as of June 30, 2023	Issuance	Maturity	Exercise/Conversion Price	June 30, 2023	December 31, 2022
Public Warrants	19,221,960	March 2021	March 2027	$ 11.50	$ 3,076	$ 1,922
Private Placement Warrants	78,000	March 2021	March 2027	11.50	12	8
FP Combination Warrants	8,291,704	March 2022	March 2027	10.00	20,066	18,573
2027 Warrants	17,253,279	October 2022	October 2027	2.898	11,876	13,707
Conversion Option Derivative	36,852,685	October 2022	October 2027	2.898	2,889	5,740
Warrant and derivative liabilities	**81,697,628**				**$ 37,919**	**$ 39,950**

There were no significant changes in the Company's liability-classified warrants and derivatives during the six months ended June 30, 2023, except for changes in fair value.

The changes in liability-classified warrants and derivatives during the six months ended June 30, 2022 were predominately related to the Tailwind Two Merger and were as follows:

(in thousands)	Current Warrant and Derivative Liabilities	Warrant and Derivative Liabilities	Total
Balance as of December 31, 2021	**$ 68,518**	**$ 5,631**	**$ 74,149**
Initial recognition from Tailwind Two Merger	-	13,124	13,124
Change in fair value of warrant and derivative liabilities	13,342	(9,666)	3,676
Reclassification of current warrant and derivative liabilities to warrant and derivative liabilities	(25,966)	25,966	-
Reclassification of liability-classified warrants and derivatives to equity-classified	(11,007)	-	(11,007)
Net settlement of liability-classified warrants into common stock	-	(7,616)	(7,616)
Issuance of contingently issuable shares	(44,887)	-	(44,887)
Balance as of June 30, 2022	**$ -**	**$ 27,439**	**$ 27,439**

Equity-classified Warrants and Derivatives

As of June 30, 2023, the Company's equity-classified warrants and derivatives were comprised of the following:

(in thousands, except share and per share amounts)	Number of Issuable Shares	Issuance	Maturity	Exercise Price
Combination Warrants	2,763,902	March 2022	March 2027	$ 10.00
Pre-Funded Warrants	9,035,000	May 2023	N/A	0.0001
RDO Warrants	29,000,000	May 2023	November 2028	1.43
Placement Agent Warrants	2,030,000	May 2023	May 2028	1.60
Total equity-classified warrants and derivatives	**42,828,902**			

There were no significant changes to the Company's equity-classified warrants and derivatives during the six months ended June 30, 2023, except as discussed below.

Registered Direct Offering

On May 30, 2023, the Company completed a registered direct offering (the "Registered Direct Offering") with an institutional investor in which the Company received proceeds of $37.1 million for the sale and issuance of (i) 16 million shares of the Company's common stock, (ii) 13 million warrants to purchase shares of the Company's common stock at an exercise price of $0.0001 (the "Pre-Funded Warrants"), and (iii) 29 million warrants to purchase shares of the Company's common stock at an exercise price of $1.43 (the "RDO Warrants"). In connection with the Registered Direct Offering, the Company incurred third-party issuance costs of $4.5 million, inclusive of the $1.5 million fair value recognized associated with 2 million warrants issued to purchase shares of the Company's common stock at an exercise price of $1.60 (the "Placement Agent Warrants"). The Company allocated the $37.1 million proceeds received and the $4.5 million of third-party issuance costs between the issued common stock, the Pre-Funded Warrants, and the RDO Warrants based on relative fair value. Accordingly, the Company allocated proceeds of $12.2 million and issuance costs of $1.5 million to common stock and proceeds of $24.9 million and issuance costs of $3.0 million to equity-classified warrants and derivatives. The proceeds and issuance costs were recognized as additional paid-in capital in the condensed consolidated balance sheets and as financing cash flows in the condensed consolidated statements of cash flows.

The fair values of the common stock and Pre-Funded Warrants were estimated based on the market price of the Company's common stock while the fair values of the RDO Warrants and Placement Agent Warrants were estimated using the Black-Scholes option-pricing model. Refer to Note 7 "Fair Value of Financial Instruments" for further discussion.

Note 7 Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for the specific asset or liability at the measurement date (the exit price). The fair value is based on assumptions that market participants would use when pricing the asset or liability. A fair value measurement is assigned a level within the fair value hierarchy depending on the source of the inputs utilized in estimating the fair value measurement as follows:

•Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

•Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

•Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The carrying amounts of cash and cash equivalents, accounts receivable, contract assets, contract liabilities, and accounts payable approximate their fair values due to the short-term maturities of these financial instruments.

Fair Value of Legacy Terran Orbital's Common Stock

Prior to the Tailwind Two Merger, there was no public market for Legacy Terran Orbital's common stock. As such, the fair value of Legacy Terran Orbital's common stock was estimated using an option pricing model, which allocated the total enterprise value of the Company to the different classes of equity as of the valuation date.

The significant assumptions used in the option pricing model included: (i) total enterprise value of Legacy Terran Orbital based on the guideline publicly-traded company method, guideline transaction method, market calibration method and discounted cash flow method; (ii) liquidation preferences, conversion values, and participation thresholds of different equity classes; (iii) probability-weighted time to a liquidity event; (iv) expected volatility based upon the historical and implied volatility of common stock for the Company's selected peers; (v) expected dividend yield of zero as the Company does not have a history or plan of declaring dividends on its common stock; (vi) risk-free interest rate based on U.S. treasury bonds with a zero-coupon rate, (vii) implied valuation, timing, and probability of the Tailwind Two Merger; and (viii) a discount for the lack of marketability of Legacy Terran Orbital's common stock at that time. The fair value of Legacy Terran Orbital's common stock represented a Level 3 fair value measurement.

Following the Tailwind Two Merger, there is a public market for Terran Orbital Corporation's common stock and certain warrant and derivative liabilities. Accordingly, the fair value of Terran Orbital Corporation's common stock and applicable warrant and derivative liabilities is based on the closing price on the relevant valuation date as reported on the NYSE.

Warrant and Derivative Liabilities

The fair values of certain warrant and derivative liabilities were estimated using the Black-Scholes option-pricing model, which uses the following significant inputs and assumptions for each security as of the valuation date: (i) the price per share of common stock, (ii) the exercise price, (iii) the risk-free interest rate, (iv) the dividend yield, (v) the contractual term, and (vi) the estimated volatility. The resulting fair values represent Level 3 fair value measurements.

The fair values of certain warrant and derivative liabilities were estimated using models similar to that of the Black-Scholes option-pricing model and included additional assumptions. Depending on the circumstances and features of the instruments, additional assumptions included or consisted of: (i) the estimated counterparty credit spread based on an estimated credit rating of CCC and below, (ii) the implied valuation, timing, and probability of closing the Tailwind Two Merger, (iii) the estimated redemption rate of the Tailwind Two's public shareholders, and (iv) a discount for the lack of marketability of Legacy Terran Orbital's common stock. The resulting fair values represent Level 3 fair value measurements.

The final fair values of certain warrants and derivatives were based on the number of shares of Terran Orbital Corporation common stock issued as part of the Tailwind Two Merger and the price per share of Terran Orbital Corporation's common stock as of the Tailwind Two Merger and represent Level 1 fair value measurements.

The fair value of the Public Warrants was based on their quoted market price as of each valuation date and represents a Level 1 fair value measurement. As the Private Placement Warrants are substantially similar to the Public Warrants, their fair value was based on the quoted market price of the Public Warrants as of each valuation date and represents a Level 2 fair value measurement.

The fair value of the Conversion Option Derivative was estimated as the difference in the fair value of the Convertible Notes due 2027 inclusive of the conversion option and the fair value of the Convertible Notes due 2027 exclusive of the conversion option. The fair value inclusive of the conversion option was estimated using a lattice model with the following significant inputs and assumptions: (i) time to maturity, (ii) coupon rate, (iii) discount rate based on an estimated credit rating of CCC and below, (iv) risk-free interest rate, (v) contractual features such as prepayment options, call premiums and default provisions, (vi) price per share of common stock, (vii) dividend yield, and (viii) estimated volatility. The fair value exclusive of the conversion option was estimated using a discounted cash flow method using a discount rate based on an estimated credit rating of CCC and below plus a risk-free interest rate. The resulting fair values represent Level 3 fair value measurements.

The assumptions underlying the above valuations represented the Company's best estimate, which involved inherent uncertainties and the application of judgment. If the Company had used different assumptions or estimates, the fair values above could have been materially different.

Long-term Debt

The following table presents the total net carrying amount and estimated fair value of the Company's long-term debt instruments, excluding finance leases, as of the dates presented:

(in thousands)	June 30, 2023		December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 163,567	$ 276,166	$ 149,948	$ 257,810

As of June 30, 2023 and December 31, 2022, the fair value of the Company's long-term debt, except as otherwise described, was estimated using a lattice model with the following significant inputs and assumptions: (i) time to maturity, (ii) coupon rate, (iii) discount rate based on an estimated credit rating of CCC and below, (iv) risk-free interest rate, and (v) contractual features such as prepayment options, call premiums and default provisions. The fair value related to Convertible Notes due 2027 was exclusive of the conversion option and estimated as described above. The fair value of long-term debt related to the PIPE Investment Obligation was estimated using a discounted cash flow method applied to the remaining quarterly payments using a discount rate based on a risk-free rate derived from constant maturity yields plus a credit risk derived from an estimated credit rating of CCC and below. The resulting fair values represent Level 3 fair value measurements.

Note 8 Shareholders' Deficit

Common Stock

Subsequent to the Tailwind Two Merger, the Company was authorized to issue up to 300 million shares of common stock with a par value of $0.0001 per share. Each share of common stock entitles the shareholder to one vote. In May 2023, the Company amended its certificate of incorporation to increase the number of authorized shares of common stock from 300,000,000 to 600,000,000.

Registered Direct Offering

In connection with the Registered Direct Offering, the Company issued 16 million shares of common stock with allocated proceeds of $12.2 million and allocated issuance costs of $1.5 million.

Tailwind Two Merger

During the six months ended June 30, 2022, the Company issued 11 million shares of common stock in exchange for the net assets of Tailwind Two, which were recognized at historical cost, in connection with the Tailwind Two Merger and issued 5.1 million shares of common stock in connection with the PIPE Investment. The Tailwind Two Merger and PIPE Investment resulted in allocated cash proceeds of $58.4 million with aggregate allocated third-party issuance costs of $48.4 million and the assumption of the Public Warrants and Private Placement Warrants with an aggregate fair value of $13.1 million. In addition, the Company issued 4.3 million shares of common stock as consideration for certain financing transactions in connection with the Tailwind Two Merger.

Committed Equity Facility

On July 5, 2022, the Company entered into a common stock purchase agreement (the "Committed Equity Facility") with an institutional investor giving the Company the right, but not the obligation, to sell to the investor over a 24-month period up to the lesser of (i) $100 million of newly issued shares of our common stock and (ii) 27,500,000 shares of the Company's common stock. The price per share of common stock sold is determined by reference to the volume weighted average price of the Company's common stock as defined within the Committed Equity Facility less a 3% discount, subject to certain limitations and conditions. The total net proceeds that the Company will receive under the Committed Equity Facility will depend on the frequency and prices at which the Company sells common stock.

As part of the Registered Direct Offering, the Company is restricted from selling common stock under the Committed Equity Facility for a period of twelve months.

As of June 30, 2023 and December 31, 2022, the remaining availability under the Committed Equity Facility was the lesser of 27,077,304 shares of common stock or $98.2 million of proceeds from the sale and issuance of common stock.

Preferred Stock

Subsequent to the Tailwind Two Merger, the Company is authorized to issue up to 50 million shares of preferred stock with a par value of $0.0001 per share. There were no shares of preferred stock issued and outstanding as of June 30, 2023 or December 31, 2022.

As part of the Tailwind Two Merger, all of the convertible preferred stock of Legacy Terran Orbital was converted into approximately 10.9 million shares of Terran Orbital Corporation's common stock. As a result of the conversion, the Company reclassified the amount of convertible preferred stock to additional paid-in capital.

Note 9 Share-Based Compensation

Share-based compensation expense totaled $3.6 million and $13.8 million during the three months ended June 30, 2023 and 2022, respectively, and $13.8 million and $31.2 million during the six months ended June 30, 2023, and 2022, respectively. Prior to the closing of the Tailwind Two Merger, all of the Company's outstanding restricted stock units (“RSUs”) included a performance condition that required a liquidity event to occur in order to vest. Accordingly, the Company previously did not recognize share-based compensation expense associated with the RSUs as their performance condition was not probable of being met until such an event occurred. Upon closing of the Tailwind Two Merger in March 2022, the Company recorded a cumulative catch-up of approximately $17.2 million to begin recognition of share-based compensation expense associated with these RSUs as the performance condition was met, of which $2.1 million was recorded to cost of sales and $15.1 million was recorded to selling, general, and administrative expenses in the condensed consolidated statements of operations and comprehensive loss based on the classification of each employee's compensation expense.

During the six months ended June 30, 2023, the Company granted approximately 2.5 million RSUs with a weighted average grant date fair value of $1.77 per unit based on the public market price of the Company’s common stock as of the date of grant. These RSUs will primarily vest over a four-year period.

During July 2023, the Company granted approximately 6.1 million RSUs that will vest over a four-year period.

Note 10 Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Equity-classified warrants that are exercisable for nominal consideration are included in basic weighted-average shares outstanding at the time of issuance.

Diluted net loss per share gives effect to all securities having a dilutive effect on net loss, weighted-average shares of common stock outstanding, or both. The effect from potential dilutive securities included, but was not limited to: (i) incremental shares of common stock calculated using the if-converted method for the Convertible Notes due 2027 and Conversion Option Derivative, and the PIPE Investment Obligation; (ii) incremental shares of common stock calculated using the treasury stock method for warrants and share-based compensation awards; (iii) incremental shares and potential shares of common stock that were contingently issuable upon closing of the Tailwind Two Merger; and (iv) the corresponding impact to net loss associated with the preceding considerations.

The RDO Warrants meet the definition of a participating security because they are entitled to participate in distributions by the Company while in the form of a warrant; however, the RDO Warrants are not required to share in the net losses of the Company. Accordingly, the participating securities do not have an impact on basic net loss per share in periods of net loss and with no distributions.

For purposes of the diluted net loss per share computation, all potentially dilutive securities were excluded because their (i) effect would be anti-dilutive, (ii) exercise price was “out-of-the-money,” or (iii) contingent issuance conditions were unsatisfied. As a result, diluted net loss per share was equal to basic net loss per share for each period presented.

The table below represents the anti-dilutive securities that could potentially be dilutive in the future for the periods presented:

	As of June 30,	
(in shares of common stock)	**2023**	**2022**
Stock options	1,088,704	1,915,529
Restricted stock units	18,215,964	15,013,114
FP Combination Warrants	8,291,704	8,291,704
Combination Warrants	2,763,902	2,763,902
Public Warrants	19,221,960	11,499,960
Private Placement Warrants	78,000	7,800,000
2027 Warrants	17,253,279	—
RDO Warrants	29,000,000	—
Placement Agent Warrants	2,030,000	—
PIPE Investment Obligation	13,750,000	4,912,664
Conversion Option Derivative	36,852,685	—

The computations of basic and diluted net loss per share for the periods presented were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share and share amounts)	**2023**	**2022**	**2023**	**2022**
Numerator:				
Net loss	$ (28,130)	$ (32,274)	$ (82,575)	$ (103,646)
Denominator:				
Weighted-average shares outstanding - basic and diluted	156,502,662	142,378,037	150,316,749	113,173,237
Net loss per share - basic and diluted	**$ (0.18)**	**$ (0.23)**	**$ (0.55)**	**$ (0.92)**

Note 11 Income Taxes

Benefit from income taxes for the three months ended June 30, 2023 was $17 thousand, resulting in an effective tax rate for the period of 0.1%. The Company had a minimal effective tax rate as a result of the continued generation of net operating losses (“NOLs”) offset by a full valuation allowance recorded on such NOLs as the Company determined it is more-likely-than-not that its NOLs will not be utilized. The remainder of the benefit from income taxes was primarily related to immaterial return-to-provision adjustments related to the Company’s foreign subsidiary.

Provision for income taxes for the three months ended June 30, 2022 was $2 thousand, resulting in an effective tax rate for the period of 0.0%. The Company had a minimal effective tax rate as a result of the continued generation of NOLs offset by a full valuation allowance recorded on such NOLs as the Company determined it is more-likely-than-not that its NOLs will not be utilized.

Provision for income taxes for the six months ended June 30, 2023 was $1 thousand, resulting in an effective tax rate for the period of 0.0%. The Company had a minimal effective tax rate as a result of the continued generation of NOLs offset by a full valuation allowance recorded on such NOLs as the Company determined it is more-likely-than-not that its NOLs will not be utilized.

Provision for income taxes for the six months ended June 30, 2022 was $4 thousand, resulting in an effective tax rate for the period of 0.0%. The Company had a minimal effective tax rate as a result of the continued generation of NOLs offset by a full valuation allowance recorded on such NOLs as the Company determined it is more-likely-than-not that its NOLs will not be utilized.

Note 12 Commitments and Contingencies

Litigation and Other Legal Matters

From time to time, the Company is subject to claims and lawsuits in the ordinary course of business, such as contractual disputes and employment matters. The Company is also subject to regulatory and governmental examinations, information requests and subpoenas, inquiries, investigations, and threatened legal actions and proceedings. The Company records accruals for losses that are probable and reasonably estimable. These accruals are based on a variety of factors such as judgment, probability of loss, and opinions of internal and external legal counsel. Legal costs in connection with claims and lawsuits in the ordinary course of business are expensed as incurred.

Class Action

In February 2023, a putative class action complaint was filed in the United States District Court for the Southern District of New York (the “Court”), Case No. 1:23-cv-01394. The litigation was instituted by Jeffrey Mullen on behalf of himself and all others similarly situated. In July 2023, an amended complaint was filed by Jeffrey Mullen, Robert Irwin, Justin Carnahan and Thomas Bennett, each on behalf of himself and all others similarly situated, naming the Company, its Chief Executive Officer, and the members of Legacy Terran Orbital’s Board of Directors as defendants. The amended class action complaint (as amended, the “Complaint”) asserts claims for violations of Section 11(A) of the Securities Exchange Act of 1933 and Section 158 of the Delaware General Corporation Law, and breach of fiduciary duties, resulting from the Company’s alleged failure to timely transfer shares of common stock to current and former employee shareholders after the consummation of the Tailwind Two Merger and alleges materially false and misleading statements made in the Company’s Form S-4 Registration Statement and Proxy Prospectus primarily relating to the process for exchanging shares in connection with the Tailwind Two Merger. The Complaint seeks an award of damages, an award of reasonable costs and expenses at trial, including counsel and expert fees, and an award of such other relief as deemed appropriate by the Court. The Company intends to defend this action vigorously.

Commercial Agreements

In connection with the Tailwind Two Merger, the Company entered into commercial agreements to purchase an aggregate amount of $20 million of goods and services over three years from two affiliates of a PIPE investor, which became effective upon the closing of the Tailwind Two Merger. As of June 30, 2023, approximately $13.3 million of the purchase obligations remained outstanding under these commercial agreements.

In 2022, the Company entered into a purchase obligation of $22.4 million for the procurement of components related to a customer program. As of June 30, 2023, approximately $9.0 million of the purchase obligation remained outstanding.

Note 13 Related Party Transactions

Lockheed Martin

Lockheed Martin, directly and through its wholly-owned subsidiary Astrolink International, LLC (“Astrolink”), is a significant holder of debt and equity instruments of the Company.

On June 26, 2017, the Company entered into a strategic cooperation agreement with Lockheed Martin (the “Strategic Cooperation Agreement”) pursuant to which the parties agreed to (i) collaborate on the development, production and sale of satellites for use in U.S. Government spacecraft and spacecraft procurements and (ii) establish a cooperation framework to enable the parties to enter into projects, research and development agreements and other collaborative business arrangements and “teaming activities.”

On October 31, 2022, the Company and Lockheed Martin terminated the Strategic Cooperation Agreement, as amended, and entered into a new Strategic Cooperation Agreement (the “2022 SCA”), pursuant to which the parties have agreed to continue to share business development opportunities and work collaboratively on small satellite and other aerospace and defense opportunities and ventures. Unless earlier terminated, the 2022 SCA has a term of 13 years and will terminate in 2035. During the term of the 2022 SCA, Lockheed Martin will be entitled to appoint a director to the Company’s board of directors and to appoint a separate board observer. As part of the 2022 SCA, the Company has also agreed that it will not make any public announcement with respect to, or seek approval by the board of directors of, any sale transaction or Fundamental Change (as defined in certain financing agreements) with respect to the Company, or any other extraordinary transaction involving the Company, with any other person regarding any of the foregoing, without giving prior notice to Lockheed Martin and to include Lockheed Martin in any such sale process, in each case, subject to the fiduciary duties of the board of directors and management of the Company.

Revenue

The Company recognized revenue from Lockheed Martin of $26.9 million and $14.9 million during the three months ended June 30, 2023 and 2022, respectively, and $47.5 million and $25.0 million during the six months ended June 30, 2023 and 2022, respectively. In addition, the Company had accounts receivable due from Lockheed Martin of $2.1 million and $0.7 million as of June 30, 2023 and December 31, 2022, respectively, and contract assets from contracts with Lockheed Martin of $1.4 million and $4.1 million as of June 30, 2023 and December 31, 2022, respectively. The Company had contract liabilities from contracts with Lockheed Martin of $11.0 million and $22.5 million as of June 30, 2023 and December 31, 2022, respectively.

As of June 30, 2023 and December 31, 2022, programs associated with Lockheed Martin represented approximately 4% and 81% of the Company's remaining performance obligations, respectively.

Expenses

During the three and six months ended June 30, 2023, the Company incurred approximately $0.6 million and $3.7 million of expenses in connection with engineering and research and development support provided by Lockheed Martin, respectively.

GeoOptics, Inc.

The Company owns a non-controlling equity interest in GeoOptics, Inc. (“GeoOptics”), a privately held company engaged in the acquisition and sale of Earth observation data and a purchaser of products and services from the Company. Additionally, one of the Company’s executive officers serves as a member of the GeoOptics board of directors. As of June 30, 2023 and December 31, 2022, the Company’s $1.7 million investment in GeoOptics represented less than a 3% ownership interest and was fully impaired.

The Company recognized revenue from GeoOptics of $0.9 million and $1.4 million during the three and six months ended June 30, 2022, respectively. The Company did not recognize any revenue from GeoOptics during the three and six months ended June 30, 2023.

Transactions with Chairman and CEO

The Company leases office space in a building beneficially owned by its Chairman and CEO with a lease term of April 1, 2021 to March 31, 2026. The Company has a one-time right to extend the lease for a period of five additional years. The lease payments under this lease were approximately $61 thousand and $59 thousand during the three months ended June 30, 2023 and 2022, respectively, and $119 thousand and $116 thousand during the six months ended June 30, 2023 and 2022, respectively.

PIPE Investment Obligation

An affiliate of a director and shareholder of the Company invested $30 million as part of the PIPE Investment in connection with the Tailwind Two Merger (the “Insider PIPE Investment”) in March 2022. The subscription agreement for the Insider PIPE Investment included a provision that obligates the Company to pay the affiliate a quarterly fee of $1.875 million for sixteen quarters beginning with the period ending March 31, 2022 (the “PIPE Investment Obligation”). The first four quarterly payments were to be paid in cash and the remaining payments are to be paid, at the Company's option, in cash or common stock of the Company, subject to subordination to and compliance with the Company's debt facilities and other contractual arrangements.

The Insider PIPE Investment resulted in proceeds received of $30 million, of which $13 million was allocated to proceeds from debt and $17 million was allocated to proceeds from the PIPE Investment in the condensed consolidated statements of cash flows based on relative fair value. Refer to Note 5 “Debt” for further discussion.

Note 14 Leases

As part of normal operations, the Company leases real estate and equipment from various counterparties with lease terms and maturities extending through 2032.

The following table presents the amounts reported in the Company's condensed consolidated balance sheets related to operating and finance leases as of the dates presented:

(in thousands)	**Classification**	**June 30, 2023**	**December 31, 2022**
Right-of-use assets:			
Operating	Other assets	$ 12,473	$ 12,736
Finance	Property, plant, and equipment, net	6,338	420
Total right-of-use assets		**$ 18,811**	**$ 13,156**
Lease liabilities			
Operating	Accrued expenses and other current liabilities	$ 1,090	$ 971
Finance	Current portion of long-term debt	1,646	90
Operating	Other liabilities	18,698	19,426
Finance	Long-term debt	3,639	321
Total lease liabilities		**$ 25,073**	**$ 20,808**

The following is a summary of the Company's lease cost for the periods presented:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
Lease cost (*in thousands*)	**2023**	**2022**	**2023**	**2022**
Operating lease cost	$ 1,782	$ 1,847	$ 3,549	$ 3,110
Finance lease cost				
Amortization of right-of-use assets	235	3	266	7
Interest on lease liabilities	58	2	66	4
Variable lease costs	171	334	438	474
Total lease cost	**$ 2,246**	**$ 2,186**	**$ 4,319**	**$ 3,595**

The following is a summary of the cash flows and supplemental information associated with the Company's leases for the periods presented:

	Six Months Ended June 30,	
Other information (*in thousands*)	**2023**	**2022**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 3,897	$ 1,399
Operating cash flows from finance leases	66	4
Financing cash flows from finance leases	197	7
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	159	10,541
Finance leases	5,071	-

Lease payments prior to commencement are classified in the condensed consolidated statements of cash flows based on the expected classification of the lease upon commencement and are excluded from the table above. During the six months ended June 30, 2023, lease payments prior to the commencement of finance leases totaled $1.7 million.

In February 2023, the Company executed an operating lease for manufacturing and assembly space with an original lease term of 124 months, which is expected to commence no later than in February 2024 and has total future minimum lease payments of approximately $34.5 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

INTRODUCTION

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and the related notes as of and for the years ended December 31, 2022 and 2021 included in our Annual Report on Form 10-K, which was filed with the United States ("U.S.") Securities and Exchange Commission (the "SEC") on March 23, 2023 (the "2022 Annual Report"). This section is intended to (i) provide material information relevant to the assessment of our results of operations and cash flows; (ii) enhance the understanding of our financial condition, changes in financial condition, and results of operations; and (iii) discuss material events and uncertainties known to management that are reasonably likely to cause reported financial information not to be necessarily indicative of future performance or of future financial condition.

The following discussion and analysis contains forward-looking statements about our business, operations, and financial performance based on current plans and estimates involving risks, uncertainties, and assumptions, which could differ materially from actual results. Factors that could cause such differences are discussed in the sections titled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included in the 2022 Annual Report. Additionally, our historical results are not necessarily indicative of the results that may be expected for any period in the future.

OVERVIEW

Terran Orbital Corporation, formerly known as Tailwind Two Acquisition Corp. ("Tailwind Two"), together with its wholly-owned subsidiaries (collectively, the "Company," "we," "our," "us," and "Terran Orbital"), is a leading manufacturer of satellite products primarily serving the aerospace and defense industries. We provide end-to-end satellite solutions by combining satellite design, production, launch planning, mission operations, and on-orbit support to meet the needs of our military, civil, and commercial customers. We have a foreign subsidiary based in Torino, Italy.

BASIS OF PRESENTATION

All financial information presented in this section has been prepared in U.S. dollars in accordance with generally accepted accounting principles in the U.S. ("GAAP"), excluding our Non-GAAP measures, and includes the accounts of Terran Orbital Corporation and its subsidiaries. All intercompany transactions have been eliminated.

We evaluate and report our segment information based on the manner in which our Chief Executive Officer, who is the chief operating decision maker (the "CODM"), evaluates performance and allocates resources. Beginning in the fourth quarter of 2022, we report our results as a single operating and reportable segment on a consolidated basis. Where applicable, prior periods have been retrospectively adjusted to reflect our current operating and reportable segment structure.

FACTORS AFFECTING OPERATING RESULTS

Our financial success is based on our ability to deliver high quality products and services on a timely basis and at a cost-effective price for our customers. With the majority of our contracts with customers reflecting firm fixed pricing structures, our gross profit is dependent on the efficient and effective execution of our contracts. Our ability to maximize gross profit may be impacted by, but not limited to, unanticipated cost overruns, disruptions in our supply chains, and learning curve and non-recurring engineering costs related to our contracts with customers. Furthermore, our overall profitability may be impacted by our internal research and development initiatives associated with developing new and innovative technology, including the expansion of our offerings to include additional satellite bus designs, payload solutions, satellite subassemblies and components, and other defense-related products.

From time to time, we may strategically enter into contracts with low or negative margins relative to other contracts or that are at risk of cost overruns. This may occur due to strategic decisions built around positioning ourselves for future contracts or to enhance our product and service offerings. However, in some instances, loss contracts may occur from unforeseen cost overruns which are not recoverable from the customer. We establish loss reserves on contracts in which the cost estimate-at-completion ("EAC") exceeds the estimated revenue. The loss reserves are recorded in the period in which a loss is determined. Our reference to adjustments to EAC in the context of describing our results of operations relates to net changes during the period in our aggregate program contract values and estimated costs at completion and include the net impact of contract terminations, cost overruns, and loss reserves.

We are actively expanding our headcount, manufacturing facilities, and office space in order to position ourselves to be awarded and have the capacity to execute on larger contracts with recurring revenue opportunities. These growth initiatives are principally located in Irvine, California near our existing facilities. Our existing portfolio of contracts includes multiple-satellite constellations as well as several technology demonstrations, prototypes, and studies with the potential for option exercises or follow-on contracts for multiple-satellite constellations. Accordingly, we are incurring a heightened level of operating expenses in advance of larger customer awards. These opportunities are subject to numerous uncertainties, including but not limited to: the customer may withdraw the opportunity, we may not submit a proposal, or we may not win a contract award or the full value of the award.

We may experience variability in the profitability of our contracts in the future and such future variability may occur at levels and frequencies different from historical experience. Such variability in profitability may be due to strategic decisions, cost overruns or other circumstances within or outside of our control. Accordingly, our historical experience with profitability on our contracts is not indicative or predictive of future experience.

COVID-19 Pandemic

During March 2020, the World Health Organization (the "WHO") declared the outbreak of a novel coronavirus as a pandemic (the "COVID-19 Pandemic"). The COVID-19 Pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption in the financial and capital markets.

The COVID-19 Pandemic has contributed to a worldwide shortage of electronic components which has resulted in longer than historically experienced lead times for such electronic components. The reduced availability to receive electronic components used in our operations has negatively affected our timing and ability to deliver products and services to customers as well as increased costs in recent periods. In an effort to manage this disruption to our supply chain, we have focused on accumulating critical components to ensure an appropriate level of supply is available when needed.

We have considered the ongoing and pervasive economic impact of the COVID-19 Pandemic in our assessment of our financial position, results of operations, cash flows, and certain accounting estimates as of and for the periods presented. The U.S. Government allowed the national public health emergency declaration related to the COVID-19 Pandemic to expire on May 11, 2023, and the WHO ended the global emergency status for the COVID-19 Pandemic on May 5, 2023.

RECENT DEVELOPMENTS

The comparability of our results of operations has been impacted by the following events:

Tailwind Two Merger

Prior to March 25, 2022, Tailwind Two was a publicly listed special purpose acquisition company incorporated as a Cayman Islands exempted company. On March 25, 2022, Tailwind Two acquired Terran Orbital Operating Corporation, formerly known as Terran Orbital Corporation ("Legacy Terran Orbital") (the "Tailwind Two Merger"). In connection with the Tailwind Two Merger, Tailwind Two filed a notice of deregistration with the Cayman Islands Registrar of Companies and filed a certificate of incorporation and a certificate of corporate domestication with the Secretary of State of the State of Delaware, resulting in Tailwind Two becoming a Delaware corporation and changing its name from Tailwind Two to Terran Orbital Corporation. The Tailwind Two Merger resulted in Legacy Terran Orbital becoming a wholly-owned subsidiary of Terran Orbital Corporation.

As a result of the Tailwind Two Merger, all of Legacy Terran Orbital's issued and outstanding common stock was converted into shares of Terran Orbital Corporation's common stock using an exchange ratio of 27.585 shares of Terran Orbital Corporation's common stock per each share of Legacy Terran Orbital's common stock. In addition, Legacy Terran Orbital's convertible preferred stock and certain warrants were exercised and converted into shares of Legacy Terran Orbital's common stock immediately prior to the Tailwind Two Merger, and in turn, were converted into shares of Terran Orbital Corporation's common stock as a result of the Tailwind Two Merger. Further, in connection with the Tailwind Two Merger, Legacy Terran Orbital's share-based compensation plan and related share-based compensation awards were cancelled and exchanged or converted, as applicable, with a new share-based compensation plan and related share-based compensation awards of Terran Orbital Corporation.

While Legacy Terran Orbital became a wholly-owned subsidiary of Terran Orbital Corporation, Legacy Terran Orbital was deemed to be the acquirer in the Tailwind Two Merger for accounting purposes. Accordingly, the Tailwind Two Merger was accounted for as a reverse recapitalization, in which case the condensed consolidated financial statements of the Company represent a continuation of Legacy Terran Orbital and the issuance of common stock in exchange for the net assets of Tailwind Two recognized at historical cost and no recognition of goodwill or other intangible assets. Operations prior to the Tailwind Two Merger are those of Legacy Terran Orbital and all share and per-share data included in these condensed consolidated financial statements have been retrospectively adjusted to give effect to the Tailwind Two Merger. In addition, the number of shares subject to, and the exercise price of, the Company’s outstanding options and warrants were adjusted to reflect the Tailwind Two Merger. The treatment of the Tailwind Two Merger as a reverse recapitalization was based upon the pre-merger shareholders of Legacy Terran Orbital holding the majority of the voting interests of Terran Orbital Corporation, Legacy Terran Orbital's existing management team serving as the initial management team of Terran Orbital Corporation, Legacy Terran Orbital's appointment of the majority of the initial board of directors of Terran Orbital Corporation, and Legacy Terran Orbital's operations comprising the ongoing operations of the Company.

In connection with the Tailwind Two Merger, approximately $29 million of cash and marketable securities held in trust, net of redemptions by Tailwind Two's public shareholders, became available for use to Terran orbital Corporation as well as proceeds received from the contemporaneous sale of common stock in connection with the closing of a PIPE investment with a contractual amount of $51 million (the “PIPE Investment”). In addition, the Company received additional proceeds from the issuance of debt contemporaneously with the Tailwind Two Merger. The cash raised was used for general corporate purposes, the partial paydown of debt, the payment of transaction costs and the payment of other costs directly or indirectly attributable to the Tailwind Two Merger.

Beginning on March 28, 2022, Terran Orbital Corporation’s common stock and public warrants began trading on the New York Stock Exchange (the “NYSE”) under the symbols “LLAP” and “LLAP WS,” respectively.

Public Company Costs

As a result of the Tailwind Two Merger, we have incurred and will continue to incur additional legal, accounting, board compensation, and other expenses that we did not previously incur as a privately-owned company. These increases in costs include compliance with the Sarbanes-Oxley Act of 2002 as well as other corporate governance rules implemented by the SEC and the NYSE. Our financial statements for the periods following the Tailwind Two Merger reflect, and will continue to reflect, the impact of these incremental expenses.

Rivada Agreement

During February 2023, we entered into an agreement with Rivada Space Networks GmbH (“Rivada”) providing for the development, production, and operation of 300 satellites, inclusive of 12 in-orbit spares and ground station equipment, for a total purchase price of approximately $2.4 billion (the “Rivada Agreement”). The agreement also includes options for additional satellites, equipment, and services, including an option for the purchase of an additional 300 satellites. Performance under the agreement will be split into a developmental phase, with amounts billed on a time and materials basis, and a firm fixed price production phase. Rivada has an option to terminate the agreement for convenience at any time and for any reason, which would result in a termination fee for work performed up to such termination. In addition, the agreement includes termination provisions for default in the event of missed delivery targets or deadlines, insolvency, or other failures to perform, which could result in the refund of all amounts paid up to such termination. Whether we ultimately recognize revenue and profit on this contract is subject to a number of uncertainties including, among other things, our ability to successfully perform our obligations, increase our manufacturing capacity, and deliver operational satellites in a timely manner and Rivada’s continuing ability to fund contract performance and maintain its regulatory licenses for its operations. The amount of revenue recognized under the Rivada Agreement was not material for the three and six months ended June 30, 2023.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2023 Compared to June 30, 2022

The following table presents our consolidated results of operations for the periods presented:

	Three Months Ended June 30,		
(in thousands)	**2023**	**2022**	**$ Change**
Revenue	$ 32,232	$ 21,364	$ 10,868
Cost of sales	31,430	25,038	6,392
Gross profit (loss)	802	(3,674)	4,476
Selling, general, and administrative expenses	28,732	29,370	(638)
Loss from operations	**(27,930)**	**(33,044)**	**5,114**
Interest expense, net	11,729	6,937	4,792
Change in fair value of warrant and derivative liabilities	(11,486)	(8,177)	(3,309)
Other (income) expense	(26)	468	(494)
Loss before income taxes	**(28,147)**	**(32,272)**	**4,125**
(Benefit from) provision for income taxes	(17)	2	(19)
Net loss	**$ (28,130)**	**$ (32,274)**	**$ 4,144**

Revenue

The increase in revenue was primarily due to the continued and increased level of progress made in satisfying our customer contracts and reflects the ongoing favorable impact from significant contract wins and modifications in recent periods.

During the three months ended June 30, 2023 and 2022, our EAC adjustments on our firm fixed price contracts resulted in an estimated negative impact to revenue of $1.2 million and $1.3 million, respectively. While we believe our estimates as of June 30, 2023 consider all relevant and known information, such as supply chain and related production challenges, additional adjustments to our EACs could occur and have an impact on our revenue in future reporting periods.

Cost of Sales

The increase in cost of sales was primarily due to the following:

- an increase of $10.8 million in labor, materials, third-party services, overhead (exclusive of allocated share-based compensation and depreciation), launch costs, and other direct costs incurred in satisfying our customer contracts; and
- an increase of $0.7 million in depreciation and amortization as a result of increased production levels.

These increases were partially offset by the following:

- a decrease of $4.5 million in share-based compensation expense as certain awards granted in connection with the Tailwind Two Merger became fully expensed during the first quarter of 2023; and
- a decrease of $0.7 million related to reserves for anticipated losses on contracts as we recorded a $0.3 million decrease in reserves during 2023 compared to a $0.4 million increase in reserves during 2022.

During the three months ended June 30, 2023 and 2022, our EAC adjustments on our firm fixed price contracts resulted in an estimated negative impact to cost of sales of $1.3 million and $2.5 million, respectively. While we believe our estimates as of June 30, 2023 consider all relevant and known information, such as supply chain and related production challenges, additional adjustments to our EACs could occur and have an impact on our cost of sales in future reporting periods.

Selling, General, and Administrative Expenses

The decrease in selling, general, and administrative expenses was primarily due to the following:

- a decrease of $5.8 million in share-based compensation expense as certain awards granted in connection with the Tailwind Two Merger became fully expensed during the first quarter of 2023;
- a decrease of $2.8 million in accounting, legal, and other professional fees; and
- a decrease of $0.5 million in business insurance expense as a result of a decrease in premiums.

These decreases were partially offset by the following:

- an increase of $4.4 million in labor and benefits, net of allocated overhead, due to the increase in headcount as part of our growth initiatives;
- an increase of $1.9 million in research and development activities, exclusive of allocated share-based compensation and depreciation, related to the development of new modules and payloads;
- an increase of $0.9 million in sales and marketing and other corporate travel;
- an increase of $0.5 million in technology costs, net of allocated overhead, due to an increase in overall headcount and solutions utilized; and
- an increase of $0.3 million in facilities expense, net of allocated overhead.

Interest Expense, net

The increase in interest expense, net was due to (i) an increase in contractual interest of $2.6 million as a result of higher debt balances due to our financing transactions during 2022, (ii) an increase in amortization related to discount on debt of $1.6 million due to our financing transactions during 2022, and (iii) a decrease in capitalized interest of $0.6 million as we are no longer developing our Earth observation constellation.

Change in Fair Value of Warrant and Derivative Liabilities

The change in fair value of warrant and derivative liabilities relates to the periodic fair value remeasurement of liability-classified warrants and derivatives issued in connection with our financing transactions.

During the three months ended June 30, 2023, the gain on change in fair value was primarily due to a decrease in the market price of our common stock and warrants, which drove the decrease in the fair value of our warrants and derivatives during the period.

During the three months ended June 30, 2022, the gain on change in fair value was primarily due to a decrease in the market price of our common stock and warrants, which drove the decrease in the fair value of our warrants and derivatives during the period.

(Benefit from) Provision for Income Taxes

Benefit from income taxes for the three months ended June 30, 2023 was $17 thousand, resulting in an effective tax rate for the period of 0.1%. We had a minimal effective tax rate as a result of the continued generation of net operating losses ("NOLs") offset by a full valuation allowance recorded on such NOLs as we determined it is more-likely-than-not that our NOLs will not be utilized. The remainder of the benefit from income taxes was primarily related to immaterial return-to-provision adjustments related to our foreign subsidiary.

Provision for income taxes for the three months ended June 30, 2022 was $2 thousand, resulting in an effective tax rate for the period of 0.0%. We had a minimal effective tax rate as a result of the continued generation of NOLs offset by a full valuation allowance recorded on such NOLs as we determined it is more-likely-than-not that our NOLs will not be utilized.

Six Months Ended June 30, 2023 Compared to June 30, 2022

The following table presents our consolidated results of operations for the periods presented:

	Six Months Ended June 30,		
(in thousands)	**2023**	**2022**	**$ Change**
Revenue	$ 60,430	$ 34,484	$ 25,946
Cost of sales	61,027	40,991	20,036
Gross loss	(597)	(6,507)	5,910
Selling, general, and administrative expenses	61,262	59,587	1,675
Loss from operations	**(61,859)**	**(66,094)**	**4,235**
Interest expense, net	22,663	9,860	12,803
Loss on extinguishment of debt	-	23,141	(23,141)
Change in fair value of warrant and derivative liabilities	(2,031)	3,676	(5,707)
Other expense	83	871	(788)
Loss before income taxes	**(82,574)**	**(103,642)**	**21,068**
Provision for income taxes	1	4	(3)
Net loss	**$ (82,575)**	**$ (103,646)**	**$ 21,071**

Revenue

The increase in revenue was primarily due to the continued and increased level of progress made in satisfying our customer contracts and reflects the ongoing favorable impact from significant contract wins and modifications in recent periods.

During the six months ended June 30, 2023 and 2022, our EAC adjustments on our firm fixed price contracts resulted in an estimated negative impact to revenue of $0.5 million and $4.2 million, respectively. While we believe our estimates as of June 30, 2023 consider all relevant and known information, such as supply chain and related production challenges, additional adjustments to our EACs could occur and have an impact on our revenue in future reporting periods.

Cost of Sales

The increase in cost of sales was primarily due to the following:

- an increase of $25.2 million in labor, materials, third-party services, overhead (exclusive of allocated share-based compensation and depreciation), launch costs, and other direct costs incurred in satisfying our customer contracts; and
- an increase of $0.7 million in depreciation and amortization as a result of increased production levels.

These increases were partially offset by the following:

- a decrease of $3.3 million in share-based compensation expense primarily due to a $2.1 million non-recurring cumulative impact recognized during the first quarter of 2022 due to the closing of the Tailwind Two Merger satisfying a vesting condition on certain awards as well as certain awards granted in connection with the Tailwind Two Merger became fully expensed during the first quarter of 2023; and
- a decrease of $2.5 million related to reserves for anticipated losses on contracts as we recorded a $2.0 million decrease in reserves during 2023 primarily due to the termination of an unfavorable contract compared to a $0.5 million increase in reserves during 2022.

During the six months ended June 30, 2023 and 2022, our EAC adjustments on our firm fixed price contracts resulted in an estimated negative impact to cost of sales of $0.5 million and $3.7 million, respectively. While we believe our estimates as of June 30, 2023 consider all relevant and known information, such as supply chain and related production challenges, additional adjustments to our EACs could occur and have an impact on our cost of sales in future reporting periods.

Selling, General, and Administrative Expenses

The increase in selling, general, and administrative expenses was primarily due to the following:

- an increase of $7.1 million in labor and benefits, net of allocated overhead, due to the increase in headcount as part of our growth initiatives;
- an increase of $6.9 million in research and development activities, exclusive of allocated share-based compensation and depreciation, related to the development of new modules and payloads;
- an increase of $1.7 million in technology costs, net of allocated overhead, due to an increase in overall headcount and solutions utilized;
- an increase of $1.2 million in sales and marketing and other corporate travel;
- an increase of $0.8 million in facilities expense, net of allocated overhead; and
- an increase of $0.7 million in insurance expense primarily as a result of becoming a public company in March 2022.

These increases were partially offset by the following:

- a decrease of $14.1 million in share-based compensation expense primarily due to a $15.1 million non-recurring cumulative impact recognized during the first quarter of 2022 due to the closing of the Tailwind Two Merger satisfying a vesting condition on certain awards as well as certain awards granted in connection with the Tailwind Two Merger became fully expensed during the first quarter of 2023, partially offset by an increase due to higher headcount; and
- a decrease of $3.7 million in accounting, legal, and other professional fees.

Interest Expense, net

The increase in interest expense, net was due to (i) an increase in contractual interest of $6.4 million as a result of higher debt balances due to our financing transactions during 2022, (ii) an increase in amortization related to discount on debt of $5.4 million due to our financing transactions during 2022, and (iii) a decrease in capitalized interest of $1.1 million as we are no longer developing our Earth observation constellation.

Loss on Extinguishment of Debt

During the six months ended June 30, 2022, loss on extinguishment of debt totaled $23 million and related to the refinancing and extinguishment of our debt obligations in connection with the Tailwind Two Merger. There was no loss on extinguishment of debt during the six months ended June 30, 2023.

Change in Fair Value of Warrant and Derivative Liabilities

The change in fair value of warrant and derivative liabilities relates to the periodic fair value remeasurement of liability-classified warrants and derivatives issued in connection with our financing transactions.

During the six months ended June 30, 2023, the gain on change in fair value was primarily due to a decrease in the market price of our common stock, which drove the decrease in the fair value of certain warrants and derivatives during the period, partially offset by an increase in the market price of our warrants, which drove the increase in the fair value of certain warrants and derivatives during the period.

During the six months ended June 30, 2022, the loss on change in fair value was primarily due to an increase in fair value of $17.0 million related to warrants and derivatives that were ultimately settled as part of the Tailwind Two Merger, partially offset by a decrease in fair value subsequent to the Tailwind Two Merger due to a decrease in the market price of our common stock and warrants.

Provision for Income Taxes

Provision for income taxes for the six months ended June 30, 2023 was $1 thousand, resulting in an effective tax rate for the period of 0.0%. We had a minimal effective tax rate as a result of the continued generation of NOLs offset by a full valuation allowance recorded on such NOLs as we determined it is more-likely-than-not that our NOLs will not be utilized.

Provision for income taxes for the six months ended June 30, 2022 was $4 thousand, resulting in an effective tax rate for the period of 0.0%. We had a minimal effective tax rate as a result of the continued generation of NOLs offset by a full valuation allowance recorded on such NOLs as we determined it is more-likely-than-not that our NOLs will not be utilized.

NON-GAAP MEASURES

To provide investors with additional information in connection with our results as determined in accordance with GAAP, we disclose the non-GAAP financial measures Adjusted Gross Profit and Adjusted EBITDA. These non-GAAP measures may be different from non-GAAP measures made by other companies. These measures may exclude items that are significant in understanding and assessing our financial results. Therefore, these measures should not be considered in isolation or as an alternative to net income or other measures of financial performance or liquidity under GAAP.

Adjusted Gross Profit

We define Adjusted Gross Profit as gross profit or loss adjusted for (i) share-based compensation expense included in cost of sales and (ii) depreciation and amortization included in cost of sales.

We believe that the presentation of Adjusted Gross Profit is appropriate to provide additional information to investors about our gross profit adjusted for certain non-cash items. Further, we believe Adjusted Gross Profit provides a meaningful measure of operating profitability because we use it for evaluating our business performance, making budgeting decisions, and comparing our performance against that of other peer companies using similar measures.

There are material limitations to using Adjusted Gross Profit. Adjusted Gross Profit does not take into account all items which directly affect our gross profit or loss. These limitations are best addressed by considering the economic effects of the excluded items independently and by considering Adjusted Gross Profit in conjunction with gross profit or loss as calculated in accordance with GAAP.

The following table reconciles Adjusted Gross Profit to gross profit or loss (the most comparable GAAP measure) for the three months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		
(in thousands)	**2023**	**2022**	**$ Change**
Gross profit (loss)	**$ 802**	**$ (3,674)**	**$ 4,476**
Share-based compensation expense	778	5,229	(4,451)
Depreciation and amortization	1,232	530	702
Adjusted gross profit	**$ 2,812**	**$ 2,085**	**$ 727**

The increase in Adjusted Gross Profit was primarily due to improvements in our EAC adjustments on our firm fixed price contracts, which had an estimated negative impact to Adjusted Gross Profit of $2.5 and $3.8 million during the three months ended June 30, 2023 and 2022, respectively. While we believe our estimates as of June 30, 2023 consider all relevant and known information, such as supply chain and related production challenges, additional adjustments to our EACs could occur and have an impact on our Adjusted Gross Profit in future reporting periods.

The following table reconciles Adjusted Gross Profit to gross profit or loss (the most comparable GAAP measure) for the six months ended June 30, 2023 and 2022:

	Six Months Ended June 30,		
(in thousands)	**2023**	**2022**	**$ Change**
Gross loss	**$ (597)**	**$ (6,507)**	**$ 5,910**
Share-based compensation expense	4,023	7,342	(3,319)
Depreciation and amortization	1,698	1,043	655
Adjusted gross profit	**$ 5,124**	**$ 1,878**	**$ 3,246**

The increase in Adjusted Gross Profit was primarily due to improvements in our EAC adjustments on our firm fixed price contracts, which had an estimated negative impact to Adjusted Gross Profit of $1.0 million and $7.9 million during the six months ended June 30, 2023 and 2022, respectively. While we believe our estimates as of June 30, 2023 consider all relevant and known information, such as supply chain and related production challenges, additional adjustments to our EACs could occur and have an impact on our Adjusted Gross Profit in future reporting periods.

Adjusted EBITDA

We define Adjusted EBITDA as net income or loss adjusted for (i) interest, (ii) taxes, (iii) depreciation and amortization, (iv) share-based compensation expense, (v) loss on extinguishment of debt, (vi) change in fair value of warrant and derivative liabilities, and (vii) other non-recurring and/or non-cash items.

We believe that the presentation of Adjusted EBITDA is appropriate to provide additional information to investors about our operating profitability adjusted for certain non-cash items, non-routine items that we do not expect to continue at the same level in the future, as well as other items that are not core to our operations. Further, we believe Adjusted EBITDA provides a meaningful measure of operating profitability because we use it for evaluating our business performance, making budgeting decisions, and comparing our performance against that of other peer companies using similar measures.

There are material limitations to using Adjusted EBITDA. Adjusted EBITDA does not take into account certain significant items, including depreciation and amortization, interest, taxes, and other adjustments which directly affect our net income or loss. These limitations are best addressed by considering the economic effects of the excluded items independently and by considering Adjusted EBITDA in conjunction with net income or loss as calculated in accordance with GAAP.

The following table reconciles Adjusted EBITDA to net loss (the most comparable GAAP measure) for the three months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		
(in thousands)	**2023**	**2022**	**$ Change**
Net loss	**$ (28,130)**	**$ (32,274)**	**$ 4,144**
Interest expense, net	11,729	6,937	4,792
(Benefit from) provision for income taxes	(17)	2	(19)
Depreciation and amortization	1,789	855	934
Share-based compensation expense	3,589	13,815	(10,226)
Change in fair value of warrant and derivative liabilities	(11,486)	(8,177)	(3,309)
Other, net[a]	1,172	4,066	(2,894)
Adjusted EBITDA	**$ (21,354)**	**$ (14,776)**	**$ (6,578)**

(a) - Represents other expense and other charges and items. Non-recurring legal and accounting fees related to our transition to a public company and financing transactions are included herein.

The decrease in Adjusted EBITDA was primarily due to an increase in selling, general, and administrative expenses as a result of our growth initiatives, partially offset by an increase in Adjusted Gross Profit. Refer to the discussions above under "Results of Operations" for further details.

The following table reconciles Adjusted EBITDA to net loss (the most comparable GAAP measure) for the six months ended June 30, 2023 and 2022:

	Six Months Ended June 30,		
(in thousands)	**2023**	**2022**	**$ Change**
Net loss	**$ (82,575)**	**$ (103,646)**	**$ 21,071**
Interest expense, net	22,663	9,860	12,803
Provision for income taxes	1	4	(3)
Depreciation and amortization	2,708	1,701	1,007
Share-based compensation expense	13,755	31,150	(17,395)
Loss on extinguishment of debt	-	23,141	(23,141)
Change in fair value of warrant and derivative liabilities	(2,031)	3,676	(5,707)
Other, net[(a)]	1,573	4,621	(3,048)
Adjusted EBITDA	**$ (43,906)**	**$ (29,493)**	**$ (14,413)**

(a) - Represents other expense and other charges and items. Non-recurring legal and accounting fees related to our transition to a public company and financing transactions are included herein.

The decrease in Adjusted EBITDA was primarily due to an increase in selling, general, and administrative expenses as a result of our growth initiatives, partially offset by an increase in Adjusted Gross Profit. Refer to the discussions above under "Results of Operations" for further details.

KEY PERFORMANCE INDICATORS

We view growth in backlog as a key measure of our business growth. Backlog represents the estimated dollar value of executed contracts and exercised contract options, including both funded (firm orders for which funding is authorized and appropriated) and unfunded portions of such contracts, for which work has not been performed (also known as the remaining performance obligations on a contract). Backlog does not include unexercised contract options and potential orders under indefinite delivery/indefinite quantity contracts. Although 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.

Our backlog totaled $2.6 billion and $170.8 million as of June 30, 2023 and December 31, 2022, respectively. The increase in backlog was primarily due to the Rivada Agreement. The increase in backlog was partially offset by revenue recognized and terminations that occurred during the period.

As of June 30, 2023, programs associated with Lockheed Martin represented approximately 4% of our backlog.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We have historically funded our operations primarily through the issuance of debt and equity securities. Our short-term liquidity requirements include initiatives related to (i) expansion of existing facilities and upgrade of equipment in order to increase operational capacity, (ii) recruitment of additional employees to meet operational needs, (iii) upgrade of information technology, (iv) research and development initiatives, and (v) continued buildout of corporate functions and public company compliance requirements, inclusive of accounting and legal fees. Our long-term liquidity requirements include initiatives related to (i) design and development of payload solutions, (ii) expansion of advanced manufacturing and assembly facilities and capabilities, and (iii) development of new satellite components, infrastructure, and software. The timing and amount of spend on these initiatives may be materially delayed, reduced, and cancelled as a result of the level of our financial resources and available financing opportunities. Additionally, our liquidity requirements include the repayment of debt and other payment obligations incurred as a result of the Tailwind Two Merger. Our sources of liquidity include cash generated from operations, potential proceeds from the exercise of warrants, and potential proceeds from the issuance of debt and/or equity securities, inclusive of sales of common stock through our Committed Equity Facility (as defined below and subject to restrictions noted below).

Certain warrants issued to affiliates of Francisco Partners provide the right to require us to exchange such warrants (in full but not in part) for $25 million in cash on March 25, 2025. If such warrant holders exercise their exchange right on March 25, 2025, then it will require us to make a $25 million cash payment, which would reduce the amount of cash available at such time to fund our operations and execute our business plan, and the amount of such future cash payment could have a material adverse effect on our financial position and cash flows at such time. Further, in the event such warrant holders exercise their right and we are unable to make the cash redemption payment on March 25, 2025, such failure for us to pay would constitute an event of default under our outstanding debt instruments, which, if not cured or waived could result in the acceleration of all outstanding indebtedness under such debt instruments. Other than such warrants, no investors have the unconditional right to sell back shares or other securities to us or have any forward purchase agreements with us.

There can be no assurances that holders of our warrants will elect to exercise for cash any or all of such warrants, and the likelihood that warrant holders will exercise their warrants is dependent upon the market price of our common stock. As of August 11, 2023, the market price of our common stock is less than the exercise price for all warrants, exclusive of warrants exercisable for a nominal price. We believe that based on the current trading prices of our common stock it is uncertain whether we will receive cash proceeds from the exercise of warrants in the next twelve months, exclusive of warrants exercisable for a nominal price. Accordingly, we have not relied upon, and are not dependent upon, the receipt of the cash proceeds from the exercise of warrants as a source of liquidity to fund our operations in the next twelve months. The exercise of any or all of the warrants outstanding as of June 30, 2023 for cash would result in an increase in our liquidity, with an aggregate maximum amount of proceeds to be received of approximately $427.2 million.

As of June 30, 2023, we had $48.6 million of cash and cash equivalents, which included $2.3 million of cash and cash equivalents held by our foreign subsidiary. We are not presently aware of any restrictions on the repatriation of our foreign cash and cash equivalents; however, the earnings of our foreign subsidiary are essentially considered permanently invested in the foreign subsidiary. If these funds were needed to fund operations or satisfy obligations in the U.S., they could be repatriated and their repatriation into the U.S. may cause us to incur additional foreign withholding taxes. We do not currently intend to repatriate these earnings.

We rely on the timely execution of programs and collections from customers to provide liquidity and fund our business plan. The failure to execute on programs and collect from customers would negatively impact our liquidity and increase our capital raising needs. In order to proceed with our strategic business plan, we may need to raise additional funds through the issuance of additional debt, equity, or other commercial arrangements, which may not be available to us when needed or on terms that we deem to be favorable. To the extent we raise additional capital through the sale of equity or convertible securities, the ownership interest of our shareholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of common shareholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making acquisitions or capital expenditures or declaring dividends. If we are unable to obtain sufficient financial resources, our business, financial condition and results of operations may be materially and adversely affected. We may be required to delay, limit, reduce or terminate parts of our strategic business plan or future commercialization efforts. There can be no assurance that we will be able to obtain financing on acceptable terms. Furthermore, our ability to meet our debt service obligations and other capital requirements depends on our future operating performance, which is subject to future general economic, financial, business, competitive, legislative, regulatory, and other conditions, many of which are beyond our control. Changes in our operating plans, material changes in anticipated sales, increased expenses, acquisitions, or other events may cause us to seek equity and/or debt financing in future periods.

Long-term Debt

As of June 30, 2023, long-term debt was comprised of the following (including accrued interest paid-in-kind):

(in thousands) Description	Issued	Maturity	Interest Rate	Interest Payable	June 30, 2023
Francisco Partners Facility	November 2021	April 2026	9.25%	Quarterly	$ 120,023
Lockheed Martin Rollover Debt	March 2021	April 2026	9.25%	Quarterly	25,000
Beach Point Rollover Debt[(1)]	March 2021	April 2026	11.25%	Quarterly	32,056
Convertible Notes due 2027[(2)]	October 2022	October 2027	10.00%	Quarterly	106,799
PIPE Investment Obligation[(3)]	March 2022	December 2025	N/A	N/A	20,625
Equipment Financings[(4)]					1,637
Finance leases					5,285
Unamortized deferred issuance costs					(2,893)
Unamortized discount on debt					(139,680)
Total debt					**168,852**
Current portion of long-term debt					11,331
Long-term debt					**$ 157,521**

(1) - Incurs annual interest at 11.25%, of which 2.00% is payable-in-kind at our option.
(2) - Interest is payable-in-kind at our option. Principal and interest prior to maturity are convertible into common stock at a conversion price of $2.898 per share at the holder's option.
(3) - Requires quarterly repayment of $1.875 million, which is payable in cash or common stock at our option, subject to certain restrictions.
(4) - Consists of equipment financing debt agreements with maturities through August 2028, annual interest rates ranging from 6.25% to 20.05%, and requiring monthly payments of principal and interest.
N/A - Not meaningful or applicable.

There were no significant changes in our long-term debt, except for the commencement of certain machinery and equipment finance leases, during the six months ended June 30, 2023. In July 2023, we paid $1.875 million related to the PIPE Investment Obligation, which was outstanding as of June 30, 2023.

As of June 30, 2023, we were in compliance with all financial covenants. Our inability to raise capital through debt or equity financings or the lack of improvements in our operating results may negatively impact our compliance with these financial covenants in future periods.

Warrants and Derivatives

Liability-classified Warrants and Derivatives

As of June 30, 2023, our liability-classified warrants and derivatives were comprised of the following:

(in thousands, except share and per share amounts)	Number of Issuable Shares	Issuance	Maturity	Exercise/Conversion Price	Fair Value
Public Warrants	19,221,960	March 2021	March 2027	$ 11.50	$ 3,076
Private Placement Warrants	78,000	March 2021	March 2027	11.50	12
FP Combination Warrants[(1)]	8,291,704	March 2022	March 2027	10.00	20,066
2027 Warrants	17,253,279	October 2022	October 2027	2.898	11,876
Conversion Option Derivative[(2)]	36,852,685	October 2022	October 2027	2.898	2,889
Warrant and derivative liabilities	**81,697,628**				**$ 37,919**

(1) - Holders have the right to exchange the warrants for a $25 million cash payment on March 25, 2025.
(2) - Represents the bifurcated embedded derivative associated with the Convertible Notes due 2027's conversion option.

There were no significant changes in our liability-classified warrants and derivatives during the six months ended June 30, 2023.

Equity-classified Warrants and Derivatives

As of June 30, 2023, our equity-classified warrants and derivatives were comprised of the following:

(in thousands, except share and per share amounts)	**Number of Issuable Shares**	**Issuance**	**Maturity**	**Exercise Price**
Combination Warrants	2,763,902	March 2022	March 2027	$ 10.00
Pre-Funded Warrants	9,035,000	May 2023	N/A	0.0001
RDO Warrants	29,000,000	May 2023	November 2028	1.43
Placement Agent Warrants	2,030,000	May 2023	May 2028	1.60
Total equity-classified warrants and derivatives	**42,828,902**			

There were no significant changes to our equity-classified warrants and derivatives during six months ended June 30, 2023, except as discussed below.

Registered Direct Offering

On May 30, 2023, we completed a registered direct offering (the "Registered Direct Offering") with an institutional investor in which we received proceeds of $37.1 million for the sale and issuance of (i) 16 million shares of our common stock, (ii) 13 million warrants to purchase shares of our common stock at an exercise price of $0.0001 (the "Pre-Funded Warrants"), and (iii) 29 million warrants to purchase shares of our common stock at an exercise price of $1.43 (the "RDO Warrants"). In connection with the Registered Direct Offering, we incurred third-party issuance costs of $4.5 million, inclusive of the $1.5 million fair value recognized associated with 2 million warrants issued to purchase shares of our common stock at an exercise price of $1.60 (the "Placement Agent Warrants"). We allocated the $37.1 million proceeds received and the $4.5 million of third-party issuance costs between the issued common stock, the Pre-Funded Warrants, and the RDO Warrants based on relative fair value. Accordingly, we allocated proceeds of $12.2 million and issuance costs of $1.5 million to common stock and proceeds of $24.9 million and issuance costs of $3.0 million to equity-classified warrants and derivatives.

Committed Equity Facility

On July 5, 2022, we entered into a common stock purchase agreement (the "Committed Equity Facility") with an institutional investor giving us the right, but not the obligation, to sell to the investor over a 24-month period up to the lesser of (i) $100 million of newly issued shares of our common stock and (ii) 27,500,000 shares of our common stock. The price per share of common stock sold by us is determined by reference to the volume weighted average price of our common stock as defined within the Committed Equity Facility less a 3% discount, subject to certain limitations and conditions. The total net proceeds that we will receive under the Committed Equity Facility will depend on the frequency and prices at which we sell common stock.

As part of the Registered Direct Offering, we are restricted from selling common stock under the Committed Equity Facility for a period of twelve months.

As of June 30, 2023, the remaining availability under the Committed Equity Facility was the lesser of 27,077,304 shares of common stock or $98.2 million of proceeds from the sale and issuance of common stock.

Dividends

We intend to retain future earnings, if any, for future operations, expansion, and debt repayment (if any) and there are no current plans to pay any cash dividends for the foreseeable future. In addition, our ability to pay dividends is limited by covenants of our existing and outstanding indebtedness and may be limited by covenants of any future indebtedness. There are no current restrictions in the covenants of our existing and outstanding indebtedness on our wholly-owned subsidiaries from distributing earnings in the form of dividends, loans, or advances and through repayment of loans or advances to Terran Orbital Corporation.

Following the Tailwind Two Merger, our existing and outstanding indebtedness allows for the declaration and payment of dividends or prepayment of junior debt obligations in cash subject to certain limitations.

Other Material Cash Requirements

In addition to debt service requirements on our long-term debt and any payment obligations on our warrants and derivatives, we have certain short-term and long-term cash requirements under operating leases and certain other contractual obligations and commitments.

Operating Leases

Refer to Note 14 “Leases” to the condensed consolidated financial statements for further information regarding our operating leases.

Purchase Commitments

Our material cash requirements for purchases of goods or services entered into in the ordinary course of business, including purchase orders and contractual obligations, primarily relate to materials and services required to manufacture, assemble, integrate, and test satellites and satellite buses in connection with satisfying our customer contracts.

Refer to Note 12 “Commitments and Contingencies” to the condensed consolidated financial statements for further information regarding our purchase commitments.

Off-Balance Sheet Arrangements

As of June 30, 2023, we do not have any material off-balance sheet arrangements other than our equity-classified warrants and derivatives, which are discussed above. Our equity-classified warrants and derivatives are both indexed to and classified as equity under GAAP.

Cash Flow Analysis

The following table is a summary of our cash flow activity for the six months ended June 30, 2023 and 2022:

	Six Months Ended June 30,		
(in thousands)	**2023**	**2022**	**$ Change**
Net cash used in operating activities	$ (64,433)	$ (32,570)	$ (31,863)
Net cash used in investing activities	(12,372)	(9,363)	(3,009)
Net cash provided by financing activities	31,746	77,197	(45,451)
Effect of exchange rate fluctuations on cash and cash equivalents	52	(290)	342
Net (decrease) increase in cash and cash equivalents	**$ (45,007)**	**$ 34,974**	**$ (79,981)**

Cash Flows from Operating Activities

The increase in net cash used in operating activities was primarily due to an increase in selling, general, and administrative expenses and working capital expenditures as a result of our growth initiatives, partially offset by an increase in cash received from customers.

The remainder of the activity in net cash used in operating activities is related to changes in assets and liabilities due to the volume and timing of other operating cash receipts and payments with respect to when the transactions are reflected in earnings.

Refer to the discussions above under “Results of Operations” for further details.

Cash Flows from Investing Activities

The increase in net cash used in investing activities was primarily driven by an increase in spending associated with the expansion of our manufacturing facilities and equipment in connection with our growth initiatives, partially offset by a decrease of $5.3 million associated with the development of company-owned satellites as we are no longer developing our Earth observation constellation.

Cash Flows from Financing Activities

During the six months ended June 30, 2023, net cash provided by financing activities primarily consisted of $24.9 million of proceeds received allocated to the issuance of warrant and derivative instruments and $12.2 million of proceeds received allocated to the issuance of common stock. These increases were partially offset by $3.8 million related to the repayment of long-term debt, inclusive of prepayments on finance leases, and $2.9 million related to the payment of issuance costs related to our financing transactions.

During the six months ended June 30, 2022, net cash provided by financing activities primarily consisted of $58.4 million of proceeds received from the Tailwind Two Merger and the PIPE Investment, $42.2 million of proceeds received allocated to warrant and derivative instruments, $35.9 million of proceeds received allocated to the issuance of debt, and $14.8 million of proceeds received allocated to the issuance of common stock in relation to our financing transactions. These increases were partially offset by $45.3 million of payments of issuance costs related to our equity and debt transactions coupled with $29.0 million related to the repayment of long-term debt.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Refer to the “Critical Accounting Policies and Estimates” section of “Terran Orbital's Management's Discussion and Analysis of Financial Condition and Results of Operations” in our 2022 Annual Report. There were no material changes to these policies and estimates during the six months ended June 30, 2023.

ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 “Organization and Summary of Significant Accounting Policies” to the condensed consolidated financial statements for further information about recent accounting pronouncements and adoptions.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q may constitute “forward-looking statements” for purposes of the federal securities laws. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. All statements, other than statements of present or historical fact included in this report, regarding Terran Orbital’s future financial performance, as well as Terran Orbital’s business strategy, future operations, financial position, estimated revenues, and losses, projected costs, earning outlooks, prospects, expectations, plans and objectives of management are forward-looking statements. When used in this report, the words “plan,” “believe,” “expect,” “anticipate,” “intend,” “outlook,” “estimate,” “forecast,” “project,” “continue,” “could,” “may,” “might,” “will,” “possible,” “potential,” “predict,” “should,” “would” and other similar words and expressions are intended to identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. These forward-looking statements are based on management’s current expectations, forecasts, assumptions, hopes, beliefs, intentions and strategies regarding future events and are based on currently available information as to the outcome and timing of future events. We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to our business.

These forward-looking statements are based on information available as of the date of this report, and current expectations, forecasts and assumptions, and involve a number of risks and uncertainties. There can be no assurance that future developments will be those that have been anticipated. Accordingly, forward-looking statements in this report should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

As a result of a number of known and unknown risks and uncertainties, Terran Orbital's actual results or performance may be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to:

- expectations regarding our strategies and future financial performance, including our future business plans or objectives, anticipated cost, timing and level of satellite orders and deliveries thereof, prospective performance and commercial opportunities, the timing of obtaining regulatory approvals, the ability to finance our operations, research and development activities and capital expenditures, reliance on government contracts and a strategic cooperation agreement with a significant customer, retention and expansion of our customer base, product and service offerings, pricing, marketing plans, operating expenses, market trends, revenues, margins, liquidity, cash flows and uses of cash, capital expenditures, and our ability to invest in growth initiatives;
- the ability to implement business plans, forecasts, and other expectations, and to identify and realize additional opportunities;
- risks associated with expansion into new and adjacent markets;
- anticipated timing, cost, financing, and development of our satellite manufacturing capabilities;
- increases in costs, which we may not be able to react to due to the nature of our U.S. Government contracts;
- the potential termination of U.S. Government contracts and subcontracts and the potential inability to recover termination costs;
- our ability to finance our operations, research and development activities, growth initiatives and capital expenditures;
- our expansion plans and opportunities;
- laws, rules and regulations applicable to us, including procurement and import-export control;
- the costs and ultimate outcome of litigation matters, government investigations and other legal proceedings;
- the ability to maintain the listing of our common stock and publicly-traded warrants on the NYSE and the possibility of limited liquidity and trading of such securities;
- geopolitical risk and changes in applicable laws or regulations;
- security threats, including cybersecurity and other industrial and physical security threats, and other disruptions;
- government investigations and audits;
- the possibility that we may be adversely affected by other economic, business, and/or competitive factors;
- that we have identified material weaknesses in our internal control over financial reporting which, if not corrected, could affect the reliability of our condensed consolidated financial statements;
- the possibility that the COVID-19 Pandemic, or another major disease, natural disaster, or threat to the physical security of our facilities or employees disrupts our business;
- supply chain disruptions, including delays, increased costs, and supplier quality control challenges;
- our ability to attract and retain qualified employees, including senior management and other key employees, technicians, engineers, and other professionals;
- our ability to achieve profitability and meet expectations regarding cash flow from operations and investments;
- our leverage and our ability to service cash debt payments and comply with debt maintenance covenants, including meeting minimum liquidity and operating profit covenants;
- our ability to access invested cash or cash equivalents upon failure of any financial institution we bank with;
- our ability to access, or ability to access on favorable terms, equity and debt capital markets and other funding sources that will be needed to fund operations and make investments in capital-intensive strategic initiatives including expansion and improvement of our manufacturing facilities and development of new lines of business;

- delays and costs associated with our business initiatives, whether due to changes in demand, lack of funding, design changes, or other conditions or circumstances; and
- the other risk factors disclosed in our filings with the SEC from time to time including our Annual Report on Form 10-K filed March 23, 2023 and our Post-effective Amendment No. 1 to Form S-1 on Form S-3 (File No. 333-264447), as amended, which was declared effective by the SEC on April 28, 2023.

These forward-looking statements are based on our current expectations, plans, forecasts, assumptions, and beliefs concerning future developments and their potential effects. There can be no assurance that the future developments affecting us will be those that we have anticipated and we may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. New risk factors and uncertainties may emerge from time to time and it is not possible to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. You should read this Quarterly Report on Form 10-Q with the understanding that our actual future results may be materially different from the expectations disclosed in the forward-looking statements we make. All forward-looking statements we make are qualified in their entirety by this cautionary statement. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date of this report, and we do not assume any obligation to update any forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2023. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as the material weaknesses in our internal control over financial reporting that were previously reported in the 2022 Annual Report continued to exist as of June 30, 2023. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result, we performed additional analysis as deemed necessary to ensure that our condensed consolidated financial statements were prepared in accordance with GAAP. Accordingly, management believes that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly in all material respects our financial position, results of operations, and cash flows for the periods presented.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2023 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting, other than changes related to the remediation of material weaknesses as described below.

We are actively working to remediate our previously identified material weaknesses. These remediation measures are ongoing and include (i) hiring additional accounting and IT personnel to bolster our technical reporting, transactional accounting, internal controls and IT capabilities; (ii) designing and implementing controls to formalize roles and review responsibilities and designing and implementing formal controls over segregation of duties; (iii) designing and implementing a formal risk assessment process to identify and evaluate changes in our business and the impact on our internal controls; (iv) designing and implementing controls to formally assess complex accounting transactions and other technical accounting and financial reporting matters; (v) designing and implementing formal processes, accounting policies, procedures, and controls supporting our financial close process, including completion of business performance reviews, creating standard balance sheet reconciliation templates and journal entry controls; and (vi) designing and implementing IT general controls, including controls over change management, the review and update of user access rights and privileges, controls over data backups, and controls over program development efforts. We implemented a new enterprise resource planning system beginning on January 1, 2023 in connection with our remediation efforts.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 12 “Commitments and Contingencies” to the condensed consolidated financial statements under the heading “Litigation and Other Legal Matters” included in this Quarterly Report on Form 10-Q for legal proceedings and related matters.

ITEM 1A. RISK FACTORS.

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

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

We have not made any sales of unregistered equity securities that were not previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

The exhibits listed on the accompanying Exhibit Index are filed/furnished or incorporated by reference as part of this report.

Exhibits Index

The information required by this Item is set forth on the exhibit index below.

		Incorporated by Reference		
Exhibit Number	**Description**	**Form**	**Exhibit**	**Filing Date**
2.1†	Agreement and Plan of Merger, dated as of October 28, 2021, by and among the Terran Orbital Corporation, Tailwind Two Acquisition Corp. and Titan Merger Sub, Inc.	8-K	2.1	10/28/2021
2.2	Amendment No. 1 to the Agreement and Plan of Merger, dated as of February 8, 2022, by and among Tailwind Two Acquisition Corp., Titan Merger Sub, Inc., and Terran Orbital Corporation	S-4/A	2.2	2/10/2022
2.3	Amendment No. 2 to the Agreement and Plan of Merger, dated as of March 9, 2022, by and among Tailwind Two Acquisition Corp., Titan Merger Sub, Inc., and Terran Orbital Corporation	8-K	2.1	3/15/2022
3.1	Amended and Restated Certificate of Incorporation	8-K	3.1	5/5/2023
3.2	Bylaws of Terran Orbital Corporation	8-K	3.2	3/28/2022
4.1	Form of Common Warrant	8-K	4.1	5/30/2023
4.2	Form of Pre-Funded Warrant	8-K	4.2	5/30/2023
4.3	Form of Placement Agent Warrant	8-K	4.3	5/30/2023
10.1	Form of Securities Purchase Agreement dated as of May 24, 2023, by and among the Company and the Purchaser party thereto	8-K	10.1	5/30/2023
10.2*+	Offer Letter, dated as of May 25, 2023, by and between Tony Gingiss and Terran Orbital Corporation			
31.1*	Certification of 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 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 Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101	XBRL Instant Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document			

* Filed herewith.
** Furnished herewith.
+ Indicates a management contract or compensatory plan.
† Schedules and exhibits to this Exhibit omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

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.

TERRAN ORBITAL CORPORATION

Date: August 14, 2023	By:	/s/ Gary A. Hobart
		Gary A. Hobart
		Chief Financial Officer, Executive Vice President and Treasurer
		(Principal Financial Officer)

Exhibit 10.2

May 25, 2023

Anthony Gingiss

DELIVERED VIA EMAIL

Dear Tony,

On behalf of Terran Orbital Corporation (the "Company"), we are pleased to offer you employment per the conditions below.

As a member of the Terran Orbital family, your anticipated start date will be June 12, 2023. Your position will be Chief Operating Officer (LCAT: EXEC), reporting to Marc Bell, Chief Executive Officer, in our Irvine, CA office at 15330 Barranca Parkway, Irvine, CA 92618. Your job duties will include but not be limited to overseeing ongoing business operations and leading the execution of strategies developed by you and the other Executive Leadership Team members. This position is a full-time position with regularly scheduled hours of forty (40). Of course, actual hours may vary depending on the Company's business needs.

Your annualized salary is $440,000, subject to appropriate tax withholdings and deductions. As an exempt employee, you will not be entitled to overtime pay, and your salary is intended to cover all hours worked, including any hours worked in excess of 40 in a workweek or overtime as otherwise mandated by applicable state law. You are eligible to earn a discretionary performance bonus on an annual basis. The annual target bonus will be 75% of base salary for each full calendar year of employment. While whether to pay a bonus and the amount of any such bonus rests in the Company's sole discretion, the Company generally will provide you with basic goals on an annual basis and, in its discretion, analyze whether the goals were achieved as part of its determination of potential annual bonus payment. Subject to applicable law, in order to earn any bonus, you must be employed as of the date of payment.

The Company will also advance you a one-time signing bonus of $50,000 subject to applicable taxes and withholdings. Earning of this bonus is conditional on your satisfactory employment with the Company for at least twenty-four (24) months. In the event that you resign, quit, or are terminated for cause (as determined by the Company in its reasonable discretion) within your initial twenty-four (24) months of employment, you agree to repay the signing bonus to the Company in full immediately upon the end of your employment.

During your employment, you will be eligible for employee benefits consistent with the Company's practices and applicable law and in accordance with the terms of the applicable benefit plans and/or Company policies, as they currently exist and subject to any future modifications in the Company's discretion, to the maximum extent permitted by applicable law. These benefits currently include group health insurance and other insurance and related benefits as well as paid time off benefits such as paid holidays, unlimited PTO and 3 days (24 hours) of paid sick leave, to be awarded on date of hire and subsequently annually.

Within ninety (90) days of the date hereof, you will receive a grant of 300,000 restricted stock units ("RSUs") issued under the Terran Orbital Corporation 2021 Omnibus Incentive Plan ("Plan"). Vesting will be annually over four (4) years from the date of grant and such grant will be subject to the approval of the Board of Directors of Terran Orbital and the terms and conditions of the Plan, the applicable award agreement governing RSUs, any other documents evidencing or setting out the terms of the award and applicable securities laws. Plan awards and the underlying equity have been registered on Terran Orbital's Form S-8, which is on file with the U.S. Securities and Exchange Commission and available on our website at www.terranorbital.com.

During your employment, you will be subject to all of the policies, rules and regulations applicable to employees of the Company, as they currently exist and subject to any future modifications in the Company's discretion including, without limitation, maintaining as confidential proprietary information of the Company consistent with the **AT WILL EMPLOYMENT, INVENTIONS ASSIGNMENT, NON-DISCLOSURE, AND ARBITRATION AGREEMENT** you will be required to sign as a condition of employment.

Your employment will be "at will," and as such you will be free to leave your employment with the Company at any time. Similarly, the Company may terminate your employment at any time and for any or no reason, with or without cause or notice. At-will status may only be modified on an individual or collective basis via a written contract or agreement signed by the Company's General Counsel

Notwithstanding the foregoing, the Company may terminate your employment subject to the following conditions:

The Company may terminate your employment for Cause at any time after providing written notice to you, if after providing you with notice of the breach, you fail to cure the breach, if curable, within seven (7) days after receipt of the notice of breach. For purposes of this Agreement, the term "Cause" shall mean:

i.conviction or plea of nolo contendere of any felony, serious violation of law, or a crime involving moral turpitude;

ii.refusal to perform the customary and legal employment duties reasonably related to his position or follow the lawful direction of the CEO (other than as a result of vacation, sickness, illness or injury);

iii.neglect or poor performance of duties, if not remedied to the satisfaction of the Company after written notice has been given;

iv.in the good faith judgment of the Company, fraud or embezzlement of Company property or assets;

v.willful misconduct or gross negligence with respect to the Company or any of its subsidiaries that may, in the good faith judgment of the Company, result in a breach of trust or have a material adverse effect on the Company; or

vi.a breach or violation of any provision of this Agreement, any other agreement with the Company, or any established policy of the Company.

If the company terminates you without Cause or you terminate with Good Reason, the company shall pay you an amount equal to twelve (12) months of your then current base salary, paid over a twelve (12) months period following your termination. You will receive the additional compensation set forth in this section if you execute (and do not revoke) a separation agreement and release in a form reasonably satisfactory to the Company on or after your employment termination date, but no later than the date required by the Company (which shall not be later than 60 days following your termination).

For purposes of this Offer Letter, “Good Reason” shall mean termination by you within ninety (90) days of the initial existence of one of the conditions described below which occurs without your consent: (i) a material diminution in your base salary; (ii) material diminution in your authority, duties, or responsibilities as compared to those on the date of this Agreement; (iii) a change of more than 75 miles in the geographic location at which you must perform the services under this Agreement; (iv) any other action or inaction that constitutes a material breach of the Agreement by the Company. In order to terminate for Good Reason, you must provide notice to the Company of the existence of the applicable condition described above within thirty (30) days of the initial existence of the condition, upon the notice of which the Company must be provided a period of sixty (60) days during which it may remedy the condition and not be required to pay any amounts as set forth below for a Termination by you with Good Reason. You may terminate his employment under this Agreement without Good Reason after providing not less than sixty (60) days' advance written notice to the Company.

In the event of a termination without Cause or for Good Reason within six (6) months following a Change in Control, 100% of the outstanding equity awards granted to you by the Company or any affiliates (the "Equity Awards") shall become immediately vested in full as of the date of your termination. The foregoing clause shall not apply to a Change in Control where the Equity Awards outstanding on the day immediately prior to the Change in Control were accelerated in full pursuant to the terms of the agreement triggering such Change in Control.

By signing below, you acknowledge, represent and warrant to the Company that you are not now under any obligation of a contractual nature to any person, business or other entity which is inconsistent or in conflict with this letter or which would prevent you from performing your obligations for the Company.

Employment with the Company is contingent upon your successful completion of all of the Company's lawful pre-employment checks, which may include a background check. Consideration of any background check will be tailored to the requirements of the job as well as any limitations pursuant to applicable law. By signing below, you acknowledge that you will be required to execute any necessary consents to perform such checks.

The Company participates in the United States Government E-Verify program. For purposes of Federal Immigration Law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

This letter supersedes any prior or subsequent oral or written representations regarding the terms of potential employment with the Company. By signing below, you acknowledge that you are not relying on any representations other than those set forth in this letter.

If the terms set forth in this letter are acceptable to you, please sign and date this letter and return it to the attention of Santina Michel, SVP and CHRO, at santina.michel@terranorbital.com. If you have any questions, please do not hesitate to e-mail me. Otherwise, this offer is valid only if it is accepted, signed, and returned to us by May 26, 2023.

We look forward to having you as a member of our team.

Sincerely,

/s/ Santina Michel______________

Santina Michel

SVP and CHRO

Accepted by:

/s/ Anthony Gingiss__________

Anthony (Tony) Gingiss

5/26/2023_________________

Date

15330 Barranca Parkway | Irvine, CA 92618

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, Marc H. Bell, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Terran Orbital 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: August 14, 2023

By: /s/ Marc H. Bell
Marc H. Bell
Chairman and Chief 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, Gary A. Hobart, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Terran Orbital 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: August 14, 2023

By: /s/ Gary A. Hobart
Gary A. Hobart
Chief Financial Officer, Executive Vice President and Treasurer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Terran Orbital Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Marc H. Bell, Chairman and Chief Executive Officer, certify, 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: August 14, 2023

By: /s/ Marc H. Bell
Marc H. Bell
Chairman and Chief Executive Officer

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 1350 of Title 18 of the United States Code and, accordingly, is not being filed with the U.S. Securities and Exchange Commission as part of the Report and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report, irrespective of any general incorporation language contained in such filing).

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Terran Orbital Corporation (the "Company") on Form 10-Q for the period ending June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary A. Hobart, Chief Financial Officer, Executive Vice President and Treasurer, certify, 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: August 14, 2023

By: /s/ Gary A. Hobart
Gary A. Hobart
Chief Financial Officer, Executive Vice President and Treasurer

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 1350 of Title 18 of the United States Code and, accordingly, is not being filed with the U.S. Securities and Exchange Commission as part of the Report and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report, irrespective of any general incorporation language contained in such filing).