

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

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2025

☐ **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: 001-42520

KARMAN HOLDINGS INC.
(Exact name of Registrant as specified in Charter)

Delaware	85-2660232
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5351 Argosy Avenue, Huntington Beach, CA	92649
(Address of principal executive offices)	(Zip Code)

(714) 898-9951
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	KRMN	New York Stock Exchange

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition 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 by Rule 12b-2 of the Exchange Act). Yes ☐ NO ☒

Number of shares of registrant's common shares outstanding as of May 12, 2025 was 132,174,593.

Karman Holdings Inc.

Table of Contents

	<u>Page</u>
<u>PART I: FINANCIAL INFORMATION</u>	
Item 1.	3
<u>Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2.	22
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	22
Item 3.	35
<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	35
Item 4.	36
<u>Controls and Procedures</u>	36
<u>PART II: OTHER INFORMATION</u>	
Item 1.	38
<u>Legal Proceedings</u>	38
Item 1A.	38
<u>Risk Factors</u>	38
Item 2.	38
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3.	38
<u>Defaults Upon Senior Securities</u>	38
Item 4.	38
<u>Mine Safety Disclosures</u>	38
Item 5.	38
<u>Other Information</u>	38
Item 6.	39
<u>Exhibits, Financial Statement Schedules</u>	39
<u>Signature</u>	40

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Karman Holdings Inc.
Condensed Consolidated Balance Sheets
(in thousands, except par value and share data)
(unaudited)

	March 31, 2025	December 31, 2024
ASSETS		
Current assets		
Cash and cash equivalents	\$ 113,679	\$ 11,530
Accounts receivable, net	47,768	55,220
Contract assets	122,154	107,222
Inventory	10,417	9,883
Prepaid and other current assets	7,522	17,856
Total current assets	301,540	201,711
Property, plant and equipment	93,098	87,832
Less accumulated depreciation	(29,734)	(26,952)
Net property, plant and equipment	63,364	60,880
Other assets		
Goodwill	225,146	225,146
Intangible assets, net	204,575	208,952
Operating lease right-of-use assets	5,721	6,071
Finance lease right-of-use assets	67,852	70,013
Other assets	7,195	1,187
Total other assets	510,489	511,369
Total assets	\$ 875,393	\$ 773,960
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 25,445	\$ 28,296
Accrued payroll and related expenses	8,289	11,249
Contract liabilities	26,001	29,868
Short term operating lease liabilities	1,468	1,533
Short term finance lease liabilities	4,043	3,980
Short term notes payable, net of debt issuance costs	7,140	7,140
Income taxes payable	16,817	20,054
Other current liabilities	1,062	12,487
Total current liabilities	90,265	114,607
Long-term liabilities		
Revolving line of credit	—	25,000
Long-term notes payable, net of current portion and net of debt issuance costs	325,419	326,920
Noncurrent operating lease liabilities, net of current portion	5,037	5,338
Noncurrent finance lease liabilities, net of current portion	76,565	77,957
Other liabilities	2,746	2,772
Deferred tax liabilities	26,443	25,370
Total long-term liabilities	436,210	463,357
Total liabilities	526,475	577,964
Equity:		
Preferred stock, \$0.001 par value; authorized — 100,000,000 shares; issued and outstanding — none	—	—
Common stock; \$0.001 par value; authorized — 1,000,000,000 shares; issued and outstanding — 132,174,593 and none, respectively	132	—
Additional paid in capital	361,846	204,258
Accumulated other comprehensive income	75	75
Accumulated deficit	(13,135)	(8,337)
Stockholders' equity and members' equity, respectively	348,918	195,996
Total liabilities and equity	\$ 875,393	\$ 773,960

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

Karman Holdings Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share and per unit amounts)
(unaudited)

	Three Months Ended March 31,	
	2025	2024
Revenue	\$ 100,124	\$ 83,006
Cost of goods sold	60,673	54,006
Gross profit	39,451	29,000
Operating expenses		
General and administrative expenses	23,288	10,089
Depreciation and amortization expense	6,200	5,412
Operating expenses	29,488	15,501
Net operating income	9,963	13,499
Interest expense, net	(11,373)	(12,060)
Other income (expense)	(80)	770
Income (Loss) before provision for income taxes	(1,490)	2,209
Provision for income taxes	(3,308)	(87)
Net income (loss)	(4,798)	2,122
Net income (loss) per common share and unit, basic and diluted, respectively	\$ (0.04)	\$ 0.01
Weighted-average common share and units outstanding, basic and diluted, respectively	132,175	166,776

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

Karman Holdings Inc.
Condensed Consolidated Statements of Equity
(in thousands)
(unaudited)

	<u>Common Stock</u>		Additional Paid-In Capital	Members' Equity	Accumulated Deficit	Accumulated Other Comprehensi ve Income	Total
	Shares	Amount					
Balance, January 1, 2025	—	\$ —	\$ —	\$ 204,258	\$ (8,337)	\$ 75	\$ 195,996
Share-based compensation	—	—	—	1,410	—	—	1,410
Contributions	—	—	—	1,474	—	—	1,474
Conversion of member's equity into common stock in initial public offering	123,754	124	207,018	(207,142)	—	—	—
Issuance of common stock in initial public offering, net	8,421	8	154,828	—	—	—	154,836
Net loss	—	—	—	—	(4,798)	—	(4,798)
Balance, March 31, 2025	<u>\$ 132,175</u>	<u>\$ 132</u>	<u>\$ 361,846</u>	<u>\$ —</u>	<u>\$ (13,135)</u>	<u>\$ 75</u>	<u>\$ 348,918</u>

TCFIII Spaceco Holdings LLC
Condensed Consolidated Statements of Equity
(in thousands)
(unaudited)

	<u>Common Stock</u>		Additional Paid-In Capital	Members' Equity	Accumulated Deficit	Accumulated Other Comprehensi ve Income	Total
	Shares	Amount					
Balance, January 1, 2024	—	\$ —	\$ —	\$ 203,422	\$ (21,038)	\$ 76	\$ 182,460
Distributions	—	—	—	(37)	—	—	(37)
Net income	—	—	—	—	2,122	—	2,122
Share-based compensation	—	—	—	251	—	—	251
Balance, March 31, 2024	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 203,636</u>	<u>\$ (18,916)</u>	<u>\$ 76</u>	<u>\$ 184,796</u>

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

Karman Holdings Inc.

Condensed Consolidated Statements of Cash Flows

	For the three months ended March 31,	
	2025	2024
Cash flows from operating activities		
Net income (loss)	\$ (4,798)	\$ 2,122
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	9,455	7,350
Amortization of debt issuance costs	587	541
Non-cash interest expense and other non-cash adjustments	453	(617)
Deferred income taxes	1,072	(1,312)
Share-based compensation expenses	1,410	251
Changes in operating assets and liabilities		
Change in accounts receivable	7,452	2,192
Change in contract assets	(14,932)	(2,037)
Change in inventory	(534)	3,881
Change in prepaids and other assets	10,327	582
Change in contract liabilities	(3,867)	(4,510)
Change in accounts payable, accruals and income taxes payable	(19,957)	(5,111)
Net change in ROU assets and lease liabilities	(252)	(262)
Net cash provided by (used in) operating activities	(13,584)	3,070
Cash flows from investing activities		
Purchases of property and equipment	(5,042)	(1,616)
Investment in convertible note	(6,000)	—
Acquisition of business, net of cash acquired	—	(30,687)
Net cash flows used in investing activities	(11,042)	(32,303)
Cash flows from financing activities		
Net proceeds from issuance of common stock in initial public offering	153,808	—
Finance lease payments	(1,226)	(329)
Proceeds from notes payable	—	35,000
Repayments of notes payable	(2,281)	(2,703)
Payments of debt issuance costs	—	(963)
Proceeds from revolving line of credit	—	8,000
Repayments of revolving line of credit	(25,000)	(8,000)
Cash contributed from (distribution to) members	1,474	(37)
Net cash provided by financing activities	126,775	30,968
Net increase in cash and cash equivalents	102,149	1,735
Cash and cash equivalents, beginning	11,530	5,455
Cash and cash equivalents, ending	113,679	7,190
Supplemental Disclosures		
Cash paid during the period for interest	\$ 11,038	\$ 11,394
Cash paid during the period for income taxes, net of refunds	\$ 3,656	\$ —
Supplemental Non-Cash Investing and Financing Activities		
Non-cash acquisition of finance lease right-of-use assets	\$ —	\$ 969
Non-cash acquisition of operating lease right-of-use assets	\$ 77	\$ —
Acquisitions of property and equipment included in liabilities	\$ 1,028	\$ 621
Acquisition of business included in liabilities	\$ 485	\$ 604
Payment-in-kind interest expense	\$ —	\$ 148

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

Karman Holdings Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Formation and Nature of Business Operations

Karman Holdings, Inc. (the “Company”) conducts business as Karman Space and Defense (“Karman”). Karman was incorporated in Delaware in August 2020 for the purpose of acquiring and operating companies providing contract manufacturing services to the aerospace and defense industries. Karman is headquartered in Dallas, Texas. It currently operates five subsidiaries in Brea, El Monte, Huntington Beach, California, Mukilteo, Washington and Wilsonville, Oregon.

Karman specializes in the upfront design, testing, manufacturing, and sale of mission-critical systems for existing and emerging missile and defense, and space programs. Karman’s integrated payload protection, propulsion, and interstage system solutions are deployed across a wide variety of existing and emerging programs supporting important Department of Defense (“DoD”) and space sector initiatives.

As of March 31, 2025, Karman’s five wholly-owned subsidiaries are:

1. Aerospace Engineering, LLC (AEC), a limited liability company, purchased August 28, 2020
2. AMRO Fabricating Corporation (AMRO), a C-corporation, purchased October 28, 2020
3. American Automated Engineering, Inc. (AAE), a C-corporation, purchased December 21, 2020
4. Systima Technologies, Inc. (Systima), a C-corporation, purchased September 14, 2021
5. Rapid Machine Solutions – Wolcott Design Services, LLC (RMS), a limited liability company, purchased February 16, 2024

Initial Public Offering

On February 12, 2025 the Company’s Registration Statement on Form S-1 for its initial public offering (the “IPO”) was declared effective. The Company operates as Karman Holdings Inc., a Delaware corporation. Prior to the effectiveness of the IPO, the Company was a Delaware limited liability company named TCFIII Spaceco Holdings LLC. On February 12, 2025, the Company converted into a Delaware corporation and changed the name to Karman Holdings Inc. Pursuant to the conversion, all outstanding equity interests and all outstanding P Units were converted into an aggregate of 123.8 million shares of common stock of Karman Holdings Inc.

On February 14, 2025, the Company completed the IPO of 26.5 million shares of its common stock at a public offering price of \$22.00 per share, of which, 8.4 million shares were sold by the Company. The aggregate net proceeds from the offering, after deducting underwriting discounts and commissions, payments to Phantom Unit holders and other offering expenses, were approximately \$147.3 million. See Note 9 and Note 10 for details.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include all adjustments necessary for the fair presentation of the Company’s financial position for the periods presented.

These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, include all adjustments of a normal recurring nature necessary to present fairly, in all material respects, the Company’s financial position, results of operations and cash flows. These unaudited condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2024. Operating results for the three-month periods presented are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to estimates are made prospectively based upon such periodic evaluations. It is reasonably possible that changes may occur in the near term that would affect managements' estimates with respect to revenue recognition, estimates of cost to complete contracts, allowance for credit losses, share-based payments, accrued expenses, inventory, deferred taxes, property and equipment and valuation of net assets acquired in business combinations, and the impairment assessment of goodwill and intangible assets.

Revenue and Costs Recognition

The Company recognizes revenue for each separately identifiable performance obligation in a contract representing a promise to transfer a distinct good to a customer. In most cases, goods provided under the Company's contracts are accounted for as a single performance obligation due to the complex and integrated nature of its products. These contracts generally require significant integration of a group of goods to deliver a combined output. Warranties are provided on certain contracts, but do not typically provide for services beyond standard assurances and are therefore not considered to be a separate performance obligation. Assets recognized from costs to obtain or fulfill a contract are not material. Payment terms are typically forty-five days, but may vary.

The Company generates revenue under a range of contract types including fixed-price, time and material and cost-plus fixed fee contracts. Substantially all revenue is recognized as control is transferred to the customer over time based on an input measure of progress based on costs incurred compared to estimated total costs at completion. In general, the Company's contracts contain termination clauses that entitle the Company to payment for work performed to-date for goods that do not have an alternative use. Amounts recoverable in the event of terminations include reasonable profit margins. Control is effectively transferred as the Company performs its contractual obligations.

The Company generally recognizes revenues over time using the input method, measured by the percentage of total costs incurred to-date to estimated total anticipated costs for each contract. This method is used because the Company considers total costs to be the best available measure of satisfaction of its performance obligations. Use of the input method requires the Company to make reasonable estimates regarding the revenue and costs associated with the design, manufacture, and delivery of its products. The Company estimates profit on these contracts as the difference between total estimated revenues and total estimated costs at completion (EAC) and recognizes profit as costs are incurred. Significant judgment is used to estimate total costs at completion. EAC's are estimated using historical actual margins as a percentage of revenue, applied to open jobs. Unforeseen events and circumstances can alter the estimate of the costs and potential benefits associated with a particular contract.

The nature of Company's business can give rise to significant contract modifications, which can impact performance obligations and transaction price. A contract modification exists when the parties to a contract agree to a change in the scope and/or price of a contract. Contracts are often modified for changes in contract specifications or requirements. Most of the Company's contract modifications are for goods that are not distinct in the context of the contract and are therefore accounted for as part of the original performance obligation through a cumulative catch-up adjustment.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as payroll taxes, employee benefits, equipment rental, indirect labor, rent, workers' compensation insurance, utilities, and shop supplies. General operating, selling, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

As of March 31, 2025, the Company had \$436.0 million of remaining performance obligations. The Company expects to recognize approximately 35.9% of the remaining performance obligations as revenue in 2025, 17.2% in 2026, and 46.9% thereafter.

The timing of Company billings is generally dependent upon agreed-upon contractual terms, milestone billings based on the completion of certain phases of the work, or when products are provided. Billing can occur prior to revenue recognition, resulting in deferred revenue or subsequent to revenue recognition, resulting in unbilled revenue. The asset, "contract assets" represents revenues recognized in excess of amounts billed. These contract assets are not considered a significant financing component of the Company's contracts as the payment terms are intended to protect the customer in the event the Company does not fulfill its obligations under the contract. The liability, "contract liabilities" represents amounts billed in excess of revenues recognized. Contract liabilities are not a

significant financing component as they are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements.

The following table summarizes our contract assets and liabilities:

	March 31, 2025	December 31, 2024
Accounts receivable	\$ 47,768	\$ 55,220
Contract assets	\$ 122,154	\$ 107,222
Contract liabilities	\$ 26,001	\$ 29,868

Changes in contract assets and contract liabilities are primarily due to the timing of payments from customers and the Company satisfying performance obligations during the normal course of business. The amount of revenue recognized from changes in the transaction price associated with performance obligations satisfied in prior year during the period ended March 31, 2025 and December 31, 2024 was not material. Changes in contract assets and contract liabilities were as follows:

	March 31, 2025	December 31, 2024
Contract assets, beginning of period	\$ 107,222	\$ 89,184
Contract assets recorded during the period	61,662	96,433
Reclassified to accounts receivable during the period	(46,730)	(78,395)
Contract assets, end of period	<u>\$ 122,154</u>	<u>\$ 107,222</u>

	March 31, 2025	December 31, 2024
Contract liabilities, beginning of period	\$ 29,868	\$ 36,074
Customer advances received or billed	7,269	19,914
Recognition of unearned revenue	(11,136)	(26,120)
Contract liabilities, end of period	<u>\$ 26,001</u>	<u>\$ 29,868</u>

The Company's contracts with customers relate to the design, manufacturing and delivery of its products in the following markets:

- Hypersonic and Strategic Missile Defense – Hypersonic missiles, large diameter missile deterrent technologies and intercontinental strategic missile defense systems
- Space and Launch – Traditional and new space launch rocket systems, space capsules, vehicles and payloads
- Tactical Missile and Integrated Defense Systems – Precision guided missiles, small diameter rocket and missile technologies and integrated defense systems

Substantially all of the Company's customers are government or commercial enterprises based in the United States.

The following table presents our disaggregated revenue and revenue growth by end-markets for the three months ended March 31, 2025 and 2024:

	Three Months Ended March 31,				
	2025	% of Revenue	2024	% of Revenue	% Change
	<i>(in thousands, except percent)</i>				
Hypersonics & Strategic Missile Defense	\$ 30,056	30.0%	\$ 24,822	29.9%	21.1%
Space & Launch	33,875	33.8%	30,256	36.5%	12.0%
Tactical Missile & Integrated Defense Systems	36,197	36.2%	27,928	33.6%	29.6%
Total Revenue	<u>\$ 100,128</u>	<u>100.0%</u>	<u>\$ 83,006</u>	<u>100.0%</u>	<u>20.6%</u>

Contract Estimates

The Company recognizes changes in contract estimates on a cumulative “catch-up” basis in the period in which the changes are identified. Such changes in contract estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in a prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in the condensed consolidated statements of operations in the period in which it is identified. During the period ended March 31, 2025 and 2024, changes in accounting estimates on revenue recognition was immaterial.

Inventory

The Company determines the cost basis for inventory using the lower of cost or net realizable value. Cost is determined by using the weighted average method. The Company recognizes raw materials within inventory. As of March 31, 2025, the balance of raw materials and work in progress was \$9.8 million and \$0.6 million, respectively, and as of December 31, 2024, the balance of raw materials and work in progress was \$9.5 million and \$0.4 million, respectively.

Prepaid and other current assets

Within prepaid and other current assets, the Company recognizes prepaid expenses for prepayments for goods that are expected to be consumed within 12 months.

The following table summarizes our prepaid and other current assets:

	March 31, 2025	December 31, 2024
Deferred offering costs	\$ —	\$ 12,202
Other prepaid and current assets	7,522	5,654
Prepaid and other current assets	<u>\$ 7,522</u>	<u>\$ 17,856</u>

Accounts Receivable and Credit Loss Reserves

Accounts receivable are comprised of unsecured amounts due from customers and presented net of any allowance for credit losses. The Company recognizes its estimate of expected losses on accounts receivable within the scope of the current expected credit losses (“CECL”) model under ASC 326. All accounts receivable balances 180 days beyond the contractual due date will be reserved at 50% and balances one year beyond the contractual due date will be reserved at 100%. For contract assets, the Company establishes a reserve for contract assets when a job exceeds a certain length of inactivity unless there is persuasive evidence the balance will still be recoverable.

The following table summarizes our allowance for credit losses:

	March 31, 2025	December 31, 2024
Allowance for credit losses, beginning balance	\$ (712)	\$ (1,039)
Credit loss recoveries (expenses)	79	(268)
Write-offs	119	595
Allowance for credit losses, ending balance	<u>\$ (514)</u>	<u>\$ (712)</u>

Other Current Liabilities

Within other current liabilities, the Company recognizes certain accrued expenses and liabilities due within 12 months. The following table summarizes our other current liabilities:

	March 31, 2025	December 31, 2024
Accrued offering costs	\$ 1,028	\$ 11,720
Other accrued expenses and current liabilities	34	767
Other current liabilities	<u>\$ 1,062</u>	<u>\$ 12,487</u>

Concentration of Credit Risk

Revenue from a few customers will typically represent a significant portion of the Company's total revenue in any given fiscal year.

For the three months ended March 31, 2025, the Company had three customers with greater than 10% of the Company's revenues, these customers comprised 23.4%, 15.5% and 13.7% of the Company's total revenues during the year.

For the three months ended March 31, 2024, the Company had two customers with greater than 10% of the Company's revenues, these customers comprised 31.2% and 10.4% of the Company's total revenues during the year.

As of March 31, 2025, these three customers accounted for 46.3% of accounts receivable. As of December 31, 2024, these three customers accounted for 58.7% of accounts receivable.

One supplier accounted approximately 12.1% of accounts payable as of March 31, 2025. One supplier accounted for approximately 19.6% of accounts payable as of December 31, 2024.

Share-Based Compensation

The Company accounts for share-based compensation under the fair value recognition provisions of ASC 718, Compensation - Stock Compensation. Under the fair value provisions, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite vesting period.

Net Income (Loss) Per Common Share or Common Unit

The Company uses the two-class method in calculating earnings per unit when it issues securities other than common units that contractually entitle the holder to participate in distributions and earnings of the Company. The Company historically issued Profit Interest Units (PIUs) in the form of Class P LLC Membership Units ("P Units") that, once vested, participate in its distributions and earnings after the common units receive their return of capital plus a specified threshold amount. For the three months ended March 31, 2024, because the Company's undistributed or distributed earnings did not exceed the P Units' thresholds, no earnings were allocated to the P Units in the computation of basic and diluted earnings per unit.

The Company presents both basic and diluted earnings per share and per unit amounts. Basic earnings per share and per unit is computed by dividing the net income attributable to common shares or common units by the weighted-average number of shares or units outstanding during the period.

Diluted earnings per share or per unit represents net income divided by the weighted-average number of shares or units outstanding, inclusive of the effect of dilutive units and contingently issuable shares or units. For the three months ended March 31, 2025 and 2024, the Company had no potentially dilutive securities.

Recently Issued Accounting Pronouncements

Recently Issued Accounting Pronouncements Adopted

In March 2024, the FASB issued ASU 2024-01, Compensation-Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards. This update clarifies the scope of "Profit Interest" and similar awards and adds an illustrative example to the existing ASC 718 standard that includes four fact patterns to demonstrate how an entity should apply the scope guidance in

paragraph 718-10-15-3 to determine whether a profits interest award should be accounted for in accordance with Topic 718. The amendments in this ASU are effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. Early adoption is permitted for interim and annual financial statements not yet issued or made available for issuance. The amendments in this ASU should be applied either (1) retrospectively to all prior periods presented in the financial statements or prospectively to profits interest and similar awards granted or (2) modified on or after the date at which the entity first applies the amendments. On January 1, 2025, the Company retrospectively adopted ASU 2024-01. The standard did not have any material impact on the Company's financial position, results of operations or cash flows.

Investments and Fair Value Measurements

The Company applies the provisions under ASC 820, Fair Value Measurements, for financial assets and liabilities that are remeasured and reported at fair value each reporting period, and for nonfinancial assets and liabilities that are remeasured and reported at fair value on a nonrecurring basis. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. Where quoted market prices for identical assets and liabilities are available in active markets, securities are classified in Level 1 of the valuation hierarchy. Level 1 securities include exchange traded securities and mutual funds for which there are quoted prices in active markets. If quoted market prices are not available for the specific security, but are based on other observable inputs, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and would generally be classified within Level 2 of the valuation hierarchy. Level 3 securities are securities where the inputs to the valuation methodology are unobservable inputs based on best estimates of inputs market participants that would be used in pricing the asset or liability as of the measurement date, including assumptions about risk. There were no transfers between Level 1, Level 2, or Level 3 for the three months ended March 31, 2025 or March 31, 2024.

On February 27, 2025, the Company invested \$6.0 million in an unrelated party (the "Issuer") in the form of a convertible promissory note (the "Note"). The Note will mature on the fifth anniversary of the Note's issuance, bears no interest and is convertible into the Issuer's shares prior to the maturity date at the Company's discretion or upon the occurrence of certain future events. The Note was accounted for as available-for-sale debt instrument measured at fair value and recorded in Other assets. The fair value of this Note is classified within level 3 of the fair value hierarchy. As of March 31, 2025, the fair value of Note approximates its carrying amount.

3. Property and Equipment

Property and equipment consisted of the following as of March 31, 2025 and December 31, 2024:

	March 31, 2025	December 31, 2024
Machinery and equipment (7-10 year assets)	\$ 62,414	\$ 59,669
Vehicles (5 year assets)	40	48
Office furniture and equipment (5-7 year assets)	1,254	1,253
Computer systems (3 year assets)	2,585	2,532
Leasehold improvements (life tied to lease duration)	17,166	14,201
Construction in process	9,639	10,129
Total property and equipment	93,098	87,832
Less accumulated depreciation	(29,734)	(26,952)
Property and equipment, net	<u>\$ 63,364</u>	<u>\$ 60,880</u>

Depreciation expense associated with property and equipment amounted to \$2,781,990 and \$2,166,752 for the three months ended March 31, 2025 and 2024, respectively.

4. Business Combination

On February 16, 2024 (the "Acquisition Date" or "Closing"), the Company acquired 100% of the equity interests of Rapid Machining Solutions - Wolcott Design Services (RMS) pursuant to the terms of a Securities Purchase Agreement (the "Agreement") in exchange for cash consideration (the "Acquisition"). The primary purpose of the business combination was to create synergies based on RMS's expertise in Aviation and Aerospace industry and expand the Company's design and manufacturing capabilities.

The Acquisition met the requirements to be considered a business combination under ASC 805. The assets and liabilities acquired, affected for adjustments to reflect fair values assigned to assets purchased and liabilities assumed, and results of operations, are included in the Company's condensed consolidated financial statements from the Acquisition Date. The Company recorded the acquired tangible and identifiable intangible assets and assumed liabilities based on their estimated fair values at the acquisition date as required under ASC 805.

The Acquisition was accounted for using the acquisition method of accounting. To fund the business combination, the Company entered into a term loan of \$35 million with TCW. The fair value of the total purchase consideration transferred was \$31.3 million in cash. The Acquisition does not have any contingent consideration arrangements.

The Company also incurred \$1.6 million of direct acquisition-related expenses, recognized as general, and administrative expenses on the condensed consolidated statements of operations for the three months ended March 31, 2024.

The following table sets forth the estimated fair values of the assets acquired, and liabilities assumed in connection with the Acquisition:

	Total Amount
	<i>(in thousands)</i>
Assets Acquired	
Cash and cash equivalents	\$ 44
Accounts receivable	2,312
Prepaid expenses	5
Inventory	828
Property plant and equipment	2,987
Customer backlogs	5,300
Customer relationships	13,000
Right of use lease assets	348
Total assets acquired	\$ 24,824
 Accounts payable	 \$ 857
Accrued liabilities	157
Lease liabilities, current	12
Lease liabilities, non-current	336
Total liabilities assumed	\$ 1,362
 Goodwill	 \$ 7,872
Fair Value of Consideration	\$ 31,334

The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets was recorded as goodwill and is fully deductible for tax purposes. The components of goodwill do not qualify as a separately recognized intangible asset.

Below is a summary of the intangible assets acquired in the Acquisition:

	Acquisition Date	
	Fair Value	Estimated Life
	<i>(in thousands)</i>	<i>(in years)</i>
Intangible Asset		
Customer Backlog	\$ 5,300	2.5
Customer Relationships	\$ 13,000	16.0

The fair value for both the customer backlog and the customer relationships were determined using the multi-period excess earnings method ("MPEEM"). This method reflects the present value of the operating cash flows generated by the intangible assets after considering the cost to realize the revenue, and an appropriate discount rate to reflect the time value and risk associated with the invested capital. In total, the intangible assets acquired subject to amortization have a weighted average life of 12.1 years.

Since the Acquisition Date through the three months ended March 31, 2024, RMS revenue and net loss were \$2.1 million and \$0.9 million, respectively.

5. Goodwill and Intangibles

The table below summarizes the changes in the Company's goodwill balances:

	Total Goodwill <i>(in thousands)</i>
Balance at January 1, 2024	\$ 217,274
Acquisitions	7,872
Impairments	—
Balance at December 31, 2024	225,146
Acquisitions	—
Impairments	—
Balance at March 31, 2025	\$ 225,146

The table below summarizes the carrying amounts of the Company's identifiable intangible assets:

	Estimated Useful lives	As of March 31, 2025			As of December 31, 2024		
		Gross Carrying Amount	Accumulated Amortization <i>(in thousands)</i>	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization <i>(in thousands)</i>	Net Carrying Amount
Patents	9 years	\$ 2,722	\$ (849)	\$ 1,873	\$ 2,722	\$ (774)	\$ 1,948
Know-How	10 years	2,286	(642)	1,644	2,286	(585)	1,701
Customer Backlogs	0.6-2.5 years	38,750	(35,832)	2,918	38,750	(35,302)	3,448
Customer Relationships	13-19 years	255,600	(57,460)	198,140	255,600	(53,745)	201,855
Total Intangible Assets		\$ 299,358	\$ (94,783)	\$ 204,575	\$ 299,358	\$ (90,406)	\$ 208,952

Amortization expense amounted to \$4.4 million and \$3.9 million for the three months ended March 31, 2025 and 2024, respectively. In total, the intangible assets acquired subject to amortization have a weighted average useful life of 15.9 years.

6. Debt

Notes Payable

The Company's notes payable consisted of the following as of March 31, 2025 and December 31, 2024:

	March 31, 2025	December 31, 2024
	<i>(in thousands)</i>	
TCW Term Note	\$ 324,380	\$ 326,662
Seller Note	10,646	10,452
Total notes payable	335,026	337,114
Issuance costs	(2,467)	(3,054)
Subtotal	332,559	334,060
Less: current portion of notes payable	(7,140)	(7,140)
Long-term notes payable	325,419	326,920

As of March 31, 2025, the Company has a term note payable under the TCW Credit Agreement (the “TCW Term Note”). The TCW Term Note was used to consolidate debt and finance the Company’s historical acquisitions. The note was issued in December 2020 with an original maturity date of December 2025. On February 16, 2024, the Company increased its TCW Term Note by \$35 million to fund the acquisition of RMS and related closing costs. All other terms of the TCW Term Note were unchanged.

The TCW Term Note carries variable interest payments based on specified benchmark reference rates. Interest rates were 10.83% and 11.01% as of March 31, 2025 and December 31, 2024, respectively.

The TCW Term Note has financial covenants such as total leverage ratios and fixed charge coverage ratios, which apply for any consecutive twelve fiscal months. As of March 31, 2025 and December 31, 2024, the Company maintained all leverage ratios and fixed charge coverage ratios. A prepayment penalty on any principal amounts repaid prior to maturity expired in April 2025. The TCW Term Note has mandatory quarterly principal repayments of \$2.1 million. Upon achieving certain measurements of cash flows, the Company is required to use the cash to repay principal amounts of the TCW Term Note. Optional principal repayments above certain minimum cash thresholds are also permitted. As of March 31, 2025 and December 31, 2024, no optional principal repayments have been made.

On January 13, 2025, the Company extended the final maturity date of the TCW Term Note from December 21, 2025 to March 20, 2026. On March 25, 2025, the Company extended the final maturity date of the TCW Term Note from March 20, 2026 to April 15, 2026. All other material terms of the term note were unchanged.

The Company holds a note payable to one of the sellers (the “Seller Note”) from a prior acquisition for \$6.6 million. The note bears interest at 7.5% and is capitalized annually on the anniversary date of the acquisition. The outstanding principal and interest balance as of March 31, 2025 and December 31, 2024 was \$10.6 million and \$10.5 million, respectively. The Seller Note plus all capitalized interest amounts is due and payable March 22, 2026. In April 2025, The Company repaid outstanding principal and interest balance of \$10.6 million.

Revolving Line of Credit

As of March 31, 2025, the Company has a revolving line of credit under the TCW Credit Agreement to provide for working capital needs. This line of credit had an initial borrowing limit of \$20 million and expiration date in December 2025, which is the date the principal amounts are due. On December 27, 2024, the Company increased the borrowing limit of its revolving line of credit from \$20.0 million to \$25.0 million and borrowed an additional \$5.0 million in cash net of financing expenses of \$0.1 million. All other terms of the TCW Credit Agreement were unchanged. Amounts outstanding on the revolving line of credit under the TCW Credit Agreement were \$0.0 million and \$20.0 million as of March 31, 2025 and December 31, 2024, respectively.

The Company’s revolving line of credit carries variable interest payments based on specified benchmark reference rates. Borrowings under the line of credit bear interest based on the Secured Overnight Financing Rate (SOFR) and the Company’s leverage ratio. Interest rates were 10.83% and 11.01% as of March 31, 2025 and December 31, 2024, respectively.

The revolving line of credit has financial covenants such as total leverage ratios and fixed charge coverage ratios, which apply for any consecutive twelve fiscal months. As of March 31, 2025 and December 31, 2024, the Company maintained all leverage ratios and fixed charge coverage ratios. Depending on the amount of cash generated from operations, disposition of assets, or sale of operation, the Company is required to use certain excess amounts to repay the outstanding principal balance of the revolving credit line. Additionally, optional principal repayments above certain minimum cash thresholds are also permitted. Debt repayment can be made before the due date without penalties.

On January 13, 2025, the Company extended the final maturity date of the revolving line of credit under the TCW Credit Agreement from December 21, 2025 to March 20, 2026. On March 25, 2025, the Company extended the final maturity date of this revolving line of credit from March 20, 2026 to April 15, 2026. All other material terms of the revolving line of credit were unchanged.

Total interest expense related to the revolving line of credit, finance leases (Note 7) and notes payable amounted to \$11.8 million and \$12.1 million for the three months ended March 31, 2025 and 2024, respectively. Through March 31, 2025, debt origination fees related to the Term Note were \$10.9 million, which are being amortized over the life of the loan using the straight-line method, as the difference between use of the effective interest and straight-line method is not material. Amortization of debt origination fees, related to the Term Note, of \$0.6 million and \$0.5 million were recorded as part of interest expense for the three months ended March 31, 2025 and 2024, respectively.

No accrued interest was recorded under the revolving line of credit under the TCW Credit Agreement and the TCW Term Note as of both March 31, 2025 and December 31, 2024.

On April 1, 2025, the Company entered into a new Credit Agreement (the “Citi Credit Agreement”) by and among Karman, the lenders from time to time party thereto and Citibank, N.A. (“Citi”), as the administrative agent for the lenders, and, substantially contemporaneously therewith, certain direct and indirect subsidiaries of Karman terminated all outstanding commitments and repaid all outstanding obligations under the TCW Credit Agreement. This transaction resulted in the extinguishment of the aforementioned TCW Term Note and facilities under the TCW Credit Agreement and the issuance of a new \$300.0 million term loan and \$50.0 million revolving line of credit. The new term loan will mature on April 1, 2032 and the new revolving line of credit will mature on April 1, 2030. See Note 15.

7. Lease Obligations

The Company has certain property leases, with former owners and members for facilities of the Company’s subsidiaries. Most of these leases are accounted for as finance leases except for facilities leased by AEC and a plane hangar leased by Systima, which are accounted for as operating leases. Total lease payments amounted to \$4.2 million and \$2.4 million for the three months ended March 31, 2025 and 2024.

Consolidated Lease Summary

On a consolidated basis, lease activity for the three month ended March 31, 2025 and 2024 were as follows:

	Three Months Ended March 31,	
	2025	2024
	<i>(in thousands)</i>	
Finance lease expense		
Amortization of ROU assets	\$ 2,293	\$ 1,513
Interest on lease liabilities	2,268	1,634
Operating lease expense	679	422
Total	<u>\$ 5,240</u>	<u>\$ 3,569</u>

Amortization of ROU assets are included in the depreciation and amortization expense line of the Condensed Consolidated Statements of Operations.

On a consolidated basis, supplemental cash flow information for the three months ended March 31, 2025 and 2024 were as follows:

	Three Months Ended March 31,	
	2025	2024
	<i>(in thousands except percent and year)</i>	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 2,275	\$ 1,634
Financing cash flows from finance leases	\$ 1,226	\$ 329
Operating cash flows from operating leases	\$ 699	\$ 433
ROU assets obtained in exchange for new finance lease liabilities	\$ —	\$ 969
ROU assets obtained in exchange for new operating lease liabilities	\$ 77	\$ —
Weighted-average remaining lease term in years for finance leases	13.63	n/a
Weighted-average remaining lease term in years for operating leases	6.08	n/a
Weighted-average discount rate for finance leases	8.39%	n/a
Weighted-average discount rate for operating leases	9.47%	n/a

8. Retirement Plans

Employee Benefit Plan

The Company maintains 401(k) Plans for all employees who have completed three months of service and have reached age 18. Qualified employees may contribute up to 90% of their pre-tax annual compensation to this plan, not to exceed the dollar limit set by law. The Company may make discretionary matching contributions and discretionary non-elective contributions to this plan. There were contributions of \$0.8 million and \$0.6 million made to the plans during the three months ended March 31, 2025 and 2024 respectively. Retirement plan contribution expense is included within either Cost of Goods Sold or General and Administrative expenses on the condensed consolidated statement of operations, depending on the nature of the employee's work.

9. Membership Units

Prior to the IPO, the Company issued membership units both in conjunction with purchases of subsidiaries and to reflect further investment in the Company's operations. The Company issued Class A, Class B, and Class C units with substantially identical rights, privileges and liquidation preferences. No member shall be liable for the debts, liabilities or obligations of the Company beyond the member's contributions. Pursuant to the Third Amended and Restated Limited Liability Company Agreement of TCFIII Spaceco Holdings LLC, all Membership Units entitle unitholders to share in the proceeds from capital transactions, including a sale of the Company, and grant them voting rights on matters requiring the consent of Members. As of December 31, 2024, a total of 166,737,325 shares of membership units were outstanding. In connection with the IPO in February 2025, all of the outstanding membership units were converted on a 0.68-for-1 basis into 112,566,039 shares of common stock of the Company.

10. Share-Based Compensation

The Company historically, through Spaceco Management Equity LLC (the "Management Company") under the Spaceco Management Equity LLC Equity Incentive Plan (the "Equity Incentive Plan"), granted P Units to certain employees of the Company and its subsidiaries, in exchange for their services to the Company. Management Company has an economic interest in the Company, but no other interests or business operations other than issuing P Units directly to management employees on behalf of the Company.

The accounting for grants of P Units by the Company to Management Company and Management Company's contemporaneous issuance of P Units to individual Company employees represents a distribution from the Company immediately followed by a contribution from Management Company, which together would have no financial statement impact. As a result, the Company refers to P Units issued to Management Company as though the Company had issued P Units directly to the employee.

The P Units entitle the holder to receive cash distributions from the Company, including, but not limited to upon a sale or change in control of the Company, provided that the proceeds received exceed the defined threshold value in the individual award agreements. Vesting is dependent on service-based and performance-based vesting conditions, as discussed in further detail below.

The P Units are subject to time-based vesting conditions (Time-Based Units). The Time-Based Units generally vest over 5 years with 20% vesting at each annual vesting date. In some cases, the Company recognizes expense as of the grant date for the portion of an award that is legally vested on the grant date as a result of years of service performed prior to the grant date. Time-Based Units are also subject to an accelerated vesting upon a change of control event, which includes an initial public offering. A corporate conversion will cause all P units to be converted into new shares of the Company based upon the fair market value of the P Units immediately prior to such conversion.

The Company records compensation cost for Time-Based Units over the requisite service period using the straight-line method.

The following table summarizes P Units activities:

	P Units	Weighted Average Grant- Date Fair Value
Nonvested units at January 1, 2024	8,892,655	\$ 0.31
Granted	—	—
Vested	(3,797,905)	\$ 0.28
Forfeited	—	—
Nonvested units at December 31, 2024	5,094,750	\$ 0.32
Granted	—	—
Vested	(5,094,750)	\$ 0.32
Forfeited	—	—
Nonvested units at March 31, 2025	—	—

In February 2025, in connection with the IPO, all 18,063,207 P Units outstanding were converted into 11,187,501 shares of the Company's common stock on a 0.62-for-1 basis. All unvested P Units vested immediately. The Company recognized share-based compensation expense of \$1.4 million and \$0.3 million during the three months ended March 31, 2025 and 2024, respectively, in general and administrative expenses in the condensed consolidated statement of operations. As of March 31, 2025, there are no P Units outstanding.

Phantom Plan

On September 23, 2024 the Company adopted a Transaction Bonuses plan (the "Phantom Plan"), pursuant to which the Company granted Phantom Units through Management Company to select employees providing services to the Company and/or its subsidiaries.

The Phantom Units are subject to service and performance-based vesting conditions. The Phantom Units are entitled to payment if the recipient is employed in the period in which a distribution event to P Unit holders, such as a change in control, initial public offering or liquidation event is consummated. The Phantom Units are not entitled to any payments until a distribution to the Company's unitholders in excess of the \$470.2 million threshold value occurs. The Company does not recognize any compensation cost for Phantom Units as these events are not considered probable, until the event actually occurs.

The following table summarizes Phantom Units activities:

	Phantom Units	Weighted Average Grant- Date Fair Value
Nonvested units as of January 1, 2024	—	—
Granted	463,162	\$ 3.04
Vested	—	—
Forfeited	—	—
Nonvested units at December 31, 2024	463,162	\$ 3.04
Granted	—	—
Vested	(463,162)	\$ 3.04
Forfeited	—	—
Nonvested units at March 31, 2025	—	\$ —

In connection with the IPO in February 2025, the Phantom Units were settled for \$6.6 million in cash, which was recognized as share-based compensation expense in general and administrative expenses in the condensed consolidated statements of operations.

11. Net Income (Loss) Per Common Share and Common Unit

Net income (loss) per common share and common unit was computed as follows:

	Three Months Ended March 31,	
	2025	2024
	<i>(in thousands except per share data)</i>	
Net income (loss)	\$ (4,798)	\$ 2,122
Weighted average common share and unit outstanding - basic, respectively	132,175	166,776
Effect of dilutive common shares and unit, respectively	—	—
Weighted average common share and unit outstanding - diluted, respectively	132,175	166,776
Net income (loss) per common share and unit - basic, respectively	\$ (0.04)	\$ 0.01
Net income (loss) per common share and unit - diluted, respectively	\$ (0.04)	\$ 0.01

The Company had no potentially dilutive securities in any period presented.

12. Segment Reporting

ASC Subtopic 280-10, “Segment Reporting,” establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available. This information is regularly evaluated by the chief operating decision maker (“CODM”) to allocate resources and assess performance. The Company’s Chief Executive Officer serves as the CODM, and reviews financial information on an operating segment basis to make operational decisions and assess financial performance. The Company operates as one segment. The accounting policies of the Company’s segment are the same as those described in the summary of significant accounting policies.

The CODM assesses performance at a consolidated level and decides how to allocate resources based on consolidated net income. The measure of segment assets is reported on the balance sheet as total consolidated assets.

The following table summarizes the Company’s revenues, net income (loss) and significant expenses:

	Three Months Ended March 31,	
	2025	2024
	<i>(in thousands)</i>	
Revenue	\$ 100,124	\$ 83,006
Expenses and other items:		
Cost of goods sold:		
Labor	(27,677)	(22,375)
Materials	(26,236)	(25,553)
Overhead	(4,091)	(4,140)
Depreciation and amortization	(2,669)	(1,938)
Total cost of goods sold	(60,673)	(54,006)
General and administrative expenses	(23,288)	(10,089)
Depreciation and amortization not included in cost of goods sold	(6,200)	(5,412)
Other income (expense)	(80)	770
Interest expense, net	(11,373)	(12,060)
Income tax provision (benefit)	(3,308)	(87)
Net income (loss)	\$ (4,798)	\$ 2,122

General and administrative expenses include share-based compensation of \$8.0 million and \$0.3 million for the three months ended March 31, 2025 and 2024 respectively.

Other expense for the three months ended March 31, 2025 was immaterial. Other income for the three months ended March 31, 2024 was \$0.8 million, which was primarily attributable to the gain from the settlement of a shareholder note in the three months ended March 2024.

Capital expenditures, which include purchases of property, plant, and equipment, are assessed and managed at the enterprise level. Refer to “Investing Activities” in the condensed consolidated statement of cash flows for the amount of cash paid for capital expenditures.

Interest income during the periods presented is insignificant.

13. Provision for Income Tax

The following table summarizes the Company’s income tax expense and effective tax rate three months ended March 31, 2025 and 2024:

	Three Months Ended March 31,	
	2025	2024
	<i>(in thousands, except percent)</i>	
Net income (loss)	\$ (1,490)	\$ 2,209
Income tax expenses	3,308	87
Effective tax rate	(222.0)%	3.9%

The primary drivers for the difference between the effective income tax rates for the three months ended March 31, 2025 and the U.S. Federal statutory rate of 21% included (i) R&D credits, offset by (ii) state taxes including change in rates, (iii) non-deductible profit interests, (iv) officer compensation, (v) uncertain tax positions including penalties and interest, and (vi) change in entity classification.

The decrease in the effective tax rate for the three months ended March 31, 2025 compared to the three months ended March 31, 2024 is primarily attributed to discrete items for change in entity classification, non-deductible officers’ compensation and interest and penalties from prior year tax returns and uncertain tax positions. The negative effective tax rate is due to the loss before provision for income taxes for the three-months ended March 31, 2025.

14. Commitments and Contingencies

In the course of doing business, the Company enters into various agreements. These agreements typically include commitments and indemnifications, which could create a liability for the Company in the event of damages or injuries related to providing these services. Management believes the Company is adequately insured. However, future claims related to these agreements could significantly affect the Company’s financial results if a loss is incurred as a result of these agreements.

The Company accrues a liability for legal contingencies when it is both probable that a liability has been incurred and the amount of loss is reasonably estimable. The Company reviews these accruals and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained and our views on the probable outcomes of claims, suits, assessments, investigations, or legal proceedings change, changes in our accrued liabilities would be recorded in the period in which such determination is made. For certain matters, the liability is not probable, or the amount cannot be reasonably estimated, and therefore, accruals have not been made. In addition, in accordance with the relevant authoritative guidance, for any matters in which the likelihood of a material loss is at least reasonably possible, the Company will provide disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, however, the Company will provide disclosure to that effect. As of March 31, 2025 and December 31, 2024, the Company has no material reserves for legal contingencies and does not believe it is subject to material litigation risk. Legal fees are expensed as incurred.

15. Subsequent Events

The following material subsequent events were noted:

In April 1, 2025, the Company entered into a new Credit Agreement (the “Citi Credit Agreement”) by and among Karman, the lenders from time to time party thereto and Citibank, N.A. (“Citi”), as the administrative agent for the lenders, and, substantially contemporaneously therewith, certain direct and indirect subsidiaries of Karman terminated all outstanding commitments and repaid all outstanding obligations under the TCW Credit Agreement. This transaction resulted in the extinguishment of the aforementioned TCW Term Note and facilities under the TCW Credit Agreement and the issuance of a new \$300.0 million term loan and \$50.0 million revolving line of credit. The new term loan will mature on April 1, 2032 and the new revolving line of credit will mature on April 1, 2030.

On April 2, 2025, the Company completed its acquisition of MTI Holdings LLC (“MTI”) pursuant to a Securities Purchase Agreement (the “Agreement”), under which the Company purchased all issued and outstanding equity interests in MTI Partners LLC and Metal Machining LLC d/b/a Innovative Precision, for approximately \$90 million in cash. The Agreement contains customary representations, warranties and covenants of both the Company and MTI. The acquisition is expected to be accounted for as a business combination and the Company is in the process of preparing its preliminary purchase price allocation.

On April 17, 2025, the Company repaid the \$10.6 million outstanding principal and interest balance of the Seller Note which was due and payable March 22, 2026.

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

You should read the following discussion in conjunction with our unaudited interim condensed consolidated financial statements, including the related notes thereto, contained within this Item 1 of this Quarterly Report. In addition to historical information, this discussion contains forward-looking statements that involve risks and uncertainties. You should read the sections of this prospectus titled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" for a discussion of the factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. For purposes of this section, references to the "Company," "Karman," "we," "us," and "our" refer to TCFIII Spaceco Holdings and its other subsidiaries prior to the Corporate Conversion and to Karman Holdings Inc. or Karman Holdco and its consolidated subsidiaries for all periods following the Corporate Conversion.

Overview

We specialize in the rapid design, development and production of critical, next-generation system solutions for launch vehicle, satellite, spacecraft, missile defense, hypersonic and UAS customers. Our integrated payload protection, propulsion, and interstage system solutions are deployed across a wide variety of existing and emerging programs supporting important Department of Defense and space sector initiatives. We estimate that no single program accounted for more than 11% of sales in the three months ended March 31, 2025 or the three months ended March 31, 2024, with revenue from over 100 active programs supporting current production and next-generation space, missile, hypersonic, and defense applications.

We believe that our engineering expertise and track record with critical piece, part and subcomponent manufacturing positions us to successfully serve customers who rely on us to deliver the technical design and scaled manufacturing of integrated system solutions that are required to withstand extreme environments and meet stringent performance requirements. Our highly engineered solutions are organized into three key families: Payload Protection and Deployment Systems, Propulsion Systems, and Aerodynamic and Interstage Systems:

Payload Protection Systems: involves the full design and manufacturing of the top section of a booster, launch vehicle, payload, or missile system.

Propulsion Systems: involves the integrated offering of solid rocket motor subsystems, launch systems, and ablative composites.

Aerodynamic and Interstage Systems: involves supporting metallic and composite subsystems designed for aerodynamics and interstage separation.

Our solutions are deployed across three growing, core end markets including: Hypersonics and Strategic Missile Defense, Tactical Missile and Integrated Defense Systems, and Space and Launch. We currently serve a diverse customer base supported by long-term relationships and engineering partnerships and believe that our differentiated technical design, intellectual property, and track record of mission success provides us with a value proposition that proves difficult to replicate by current competitors and potential future entrants. By utilizing our vertically integrated, concept-to-production capabilities, we have created a business model aimed at creating long-term, sustainable value for our customers, the programs we support, and the warfighter.

Our business is guided by a key, overarching mission – to expand what's possible in space and defense through the relentless pursuit of innovation, integration, and collaboration. Our business model is focused on providing innovative and reliable integrated system solutions, utilizing our concept-to-production capabilities, which include comprehensive in-house design, analysis, testing and qualification, and production services. This strategy and these capabilities, coupled with a broad and highly integrated IP portfolio, have provided what we believe to be a competitive advantage and market leading position.

We are focused on delivering innovative and customized solutions for our customers, with more than 204 multi-discipline engineers supporting our comprehensive in-house design and manufacturing capabilities. Our unique set of capabilities is supported by decades of experience across advanced material design, proprietary digital models, material science and testing, and manufacturing expertise. We believe that this collection of vertically integrated capabilities provides a strong value proposition for our customers who seek to simplify their supply chains, increase their speed to market, and reduce costs – all while benefitting from quality integrated system solutions. Our differentiated market offering is supported by significant sole- and single-source contract positions.

Our IP portfolio is enabled by our differentiated technical design expertise, which affords us the ability to work collaboratively with customers earlier in the program development cycle to develop mission-critical solutions. Such early participation quite often leads to difficult-to-replicate solutions, as Karman solutions become part of the production specification. It is our belief that once a supplier has been qualified as a supplier on a particular program and delivers on the basis of quality, it is typically unlikely that a

prime integrator would pursue re-qualification given a relatively lengthy and costly process. We believe this provides a strong competitive advantage for Karman, who benefits from the longevity of missile and space programs and the visible and recurring revenue streams provided. Furthermore, our key design philosophy is centered around solving for an optimal solution for the customer given a specified set of performance requirements. These optimal solutions quite often integrate our patented materials, subcomponents, and proprietary manufacturing processes that have been developed over the past 40+ years.

Our Condensed Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations reflect estimates and assumptions made by management. Events and changes in circumstances arising after March 31, 2025, including those resulting from the continuing impacts of the current unfavorable macroeconomic climate, will be reflected in management's estimates for future periods.

Corporate Conversion

We currently operate as a corporation under the name Karman Holdings Inc. Prior to our initial public offering (the "IPO"), we converted from a Delaware limited liability company named TCFIII Spaceco Holdings LLC. In the conversion, all of our outstanding equity interests and all outstanding P Unites were converted into 123.8 million shares of common stock of Karman Holdings Inc.

On February 14, 2025, we completed the IPO of 26.5 million shares of its common stock at a public offering price of \$22.00 per share, of which, 8.4 million shares were sold by the Company. The aggregate net proceeds from the offering, after deducting underwriting discounts and commissions, payments to phantom unit holders and other offering expenses, were approximately \$147.3 million.

Key Factors Impacting Our Performance

U.S. Government Spending and Federal Budget Uncertainty

Changes in the volume and relative mix of U.S. government spending as well as areas of spending growth could impact our business and results of operations. In particular, our results can be affected by shifts in strategies and priorities on homeland security, intelligence, defense-related programs, infrastructure and urbanization and continued increased spending on technology and innovation, including cybersecurity, artificial intelligence, connected communities and physical infrastructure. Cost-cutting and efficiency initiatives, along with current and future budget restrictions, spending cuts, and shifts in priorities, could lead our customers—those conducting significant business through U.S. government contracts—to reduce or delay funding. This may result in inconsistent or reduced investments of appropriated funds, potentially diminishing demand for our solutions and services. Furthermore, any disruption in the functioning of government agencies, including as a result of government closures and shutdowns, could have a negative impact on our operations and cause us to lose revenue or incur additional costs due to, among other things, our inability to maintain access and schedules for government testing or deploy our staff to customer locations or facilities as a result of such disruptions.

There is also uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government actions to address budgetary constraints, caps on the discretionary budget for defense and non-defense departments and agencies, and the ability of Congress to determine how to allocate the available budget authority and pass appropriations bills to fund both U.S. government departments and agencies that are, and those that are not, subject to the caps. Additionally, budget deficits and the growing U.S. national debt may increase pressure on the U.S. government to reduce federal spending across all federal agencies, with uncertainty about the size and timing of those reductions. Furthermore, delays in the completion of future U.S. government budgets could in the future delay procurement of the federal government services we provide. A reduction in the amount of, or reductions, delays, or cancellations of funding for, services that we are contracted to provide to the U.S. government as a result of any of these impacts or related initiatives, legislation or otherwise could have a material adverse effect on our business and results of operations. Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly may negatively impact our business and could have a material adverse impact on our business, financial condition and results of operations.

Operational Performance on Contracts

Revenue, net income, and the timing of our cash flows depend on our ability to perform on our contracts. When agreeing to contractual terms, our management team makes assumptions and projections about future conditions and events. The accounting for our contracts and programs requires assumptions and estimates about these conditions and events. These projections and estimates assess:

- the productivity and availability of labor;
- the allocation of indirect costs to labor and material costs incurred;

- the complexity of the work to be performed;
- the cost and availability of materials and components; and
- schedule requirements.

If there is a significant change in one or more of these circumstances, estimates or assumptions, or if the risks under our contracts are not managed adequately, the profitability of contracts could be adversely affected. This could affect net income and margin materially.

In particular, profitability can fluctuate predicated on the type of contract awarded. Typically fixed-price development programs on complex systems represent a higher risk profile to complete on-budget. To the extent our fixed-price development efforts create a larger portion of our revenue output, this may result in reduced operating margins given the higher risk profile.

Additionally, the timing of our cash flows is impacted by the achievement of billable milestones on contracts. For instance, delays in reaching these milestones can lead to temporary cash flow shortfalls, while early completions compared to initial estimates can result in cash flow influxes. Historically, this has resulted and could continue to result in fluctuations in working capital levels and quarterly free cash flow results.

To manage these fluctuations, we have implemented several strategies, such as maintaining a buffer of liquid assets and closely monitoring project timelines to anticipate cash flow needs. Despite these measures, the inherent variability in milestone achievements means that quarter-to-quarter comparisons of our results of operations may not necessarily be meaningful and should not be relied upon as indicators of future performance.

We expect these fluctuations to persist, particularly as we take on more complex and long-term projects. However, we believe that our proactive cash flow management strategies will help mitigate the impact of our overall financial stability.

Regulations

Increased audit, review, investigation and general scrutiny by U.S. government agencies of performance under government contracts and compliance with the terms of those contracts and applicable laws could affect our operating results. Negative publicity and increased scrutiny of government contractors in general, including us, relating to government expenditures for contractor services and incidents involving the mishandling of sensitive or classified information as well as the increasingly complex requirements of the DoD and the United States intelligence community, including those related to cybersecurity, could impact our ability to perform in the markets we serve.

If a government inquiry or investigation reveals improper or illegal activities, we may face civil or criminal penalties or administrative sanctions, including contract termination, fines, fee forfeiture, payment suspension, or suspension and debarment from conducting business with U.S. Government agencies. Any of these actions could materially and adversely impact our reputation, business, financial condition, results of operations, and cash flows.

Additionally, U.S. Government procurement regulations impose various operational requirements on government contractors. Non-compliance with these regulations could lead to civil or criminal penalties, which may materially adversely affect our operating results.

Acquisitions

We consider the acquisition of businesses and investments that we believe will expand or complement our current portfolio and allow access to new customers or technologies. We also may explore the divestiture of businesses that no longer meet our needs or strategy or that could perform better outside of our organization.

Industry Background

Our defense operations are affected by U.S. Department of Defense (“DoD”) budget and spending levels, changes in demand, changes in policy positions or priorities, the domestic and global political and economic environment, and the evolving nature of the global and national security threat environment. Changes in these budget and spending levels, policies, or priorities, which are subject to U.S. domestic and foreign geopolitical risks and threats, may impact our defense businesses, including the timing of and delays in U.S. government licenses and approvals for sales, the risk of sanctions, or other restrictions.

We believe that our business is well positioned in areas that the DoD and other customers indicate are priorities for future defense spending, including those based on the 2023 National Security Strategy document, the 2024 U.S. National Security related budget and the National Defense Authorization Act (“NDAA”), and also the related Future Years Defense Program or five- year projection of the forces, resources and programs needed to support the DoD’s strategy and operations.

Components of Operations

Revenues

We generate our revenue primarily from the design, development and deployment of systems and subsystems (Propulsion Systems, Aerodynamic Interstage Systems, and Payload Protection and Deployment Systems) across three end markets (Hypersonic and Strategic Missile Defense, Missile and Integrated Defense Systems, and Space and Launch). We do not believe our revenues are subject to significant seasonal variations.

Cost of Goods Sold

Cost of goods sold consists of direct costs and allocated indirect costs. Direct costs include labor, materials, subcontracts and other costs directly related to the execution of a specific contract. Indirect costs include overhead expenses, fringe benefits and depreciation.

General and Administrative Expenses

Our general and administrative expenses (“G&A”) include salaries, fringe benefits (such as health insurance, retirement plans, vacation and sick days), and other expenses related to selling, marketing and proposal activities, certain administrative costs, operational overhead expenses, share-based compensation expenses and amortization of acquired intangible assets. Some G&A expenses relate to marketing and business development activities that support both ongoing business areas as well as new and emerging market areas. These activities can be directly associated with developing requirements for applications of capabilities created in our business development activities as well as managing human capital. G&A is an important financial metric that we analyze to help us evaluate the contribution of our selling, marketing and proposal activities to revenue generation.

Results of Operations

Comparison of the Three Months Ended March 31, 2025 and 2024

The following table sets forth, for the three months ended March 31, 2025 and 2024, certain operating data of the Company, including presentation of the changes in amounts between reporting periods:

	Three Months Ended March 31,		Change	
	2025	2024	Dollar	Percent
	<i>(in thousands, except percent)</i>			
Revenue	\$ 100,124	\$ 83,006	17,118	20.6%
Cost of goods sold	60,673	54,006	6,667	12.3%
Gross profit	39,451	29,000	10,451	36.0%
General and administrative expenses	23,288	10,089	13,199	130.8%
Depreciation and amortization expense	6,200	5,412	788	14.6%
Total operating expenses	29,488	15,501	13,987	90.2%
Net operating income	9,963	13,499	(3,536)	(26.2%)
Interest expense, net	(11,373)	(12,060)	687	(5.7%)
Other income (expense)	(80)	770	(850)	(110.4%)
Provision for income taxes	(3,308)	(87)	(3,221)	3,702.3%
Net income (loss)	(4,798)	2,122	(6,920)	(326.1%)
Net Income (loss) Margin	(4.8%)	2.6%		(7.3%)
Operating Margin	10.0%	16.3%		(6.3%)
Gross Profit Margin	39.4%	34.9%		4.5%

Revenue

Revenue for the three months ended March 31, 2025 increased \$17.1 million, or 20.6%, to \$100.1 million as compared to \$83.0 million for the three months ended March 31, 2024. Revenue represents sales from our existing businesses over comparable periods.

The increase in revenues for the three months ended March 31, 2025 as compared to the three months ended March 31, 2024 was primarily attributable to organic growth across all end-markets, Tactical Missile and Integrated Defense Systems, followed by Hypersonics and Strategic Missile Defense and Space and Launch.

As described in additional detail below, the results of operations include the following disaggregation of end market revenues:

	Three Months Ended March 31,		Change	
	2025	2024	Dollar	Percent
	<i>(in thousands, except percent)</i>			
Hypersonics and Strategic Missile Defense	\$ 30,056	\$ 24,822	\$ 5,234	21.1%
Space and Launch	33,875	30,256	3,619	12.0%
Tactical Missile and Integrated Defense Systems	36,197	27,928	8,269	29.6%
Total Revenue	<u>\$ 100,128</u>	<u>\$ 83,006</u>	<u>\$ 17,122</u>	20.6%

Growth in Hypersonics and Strategic Missile Defense revenue was driven by a net increase in funded development and production programs, primarily progress on the Next Generation Interceptor (“NGI”) program, partially offset by a decrease in revenue from another development program that did not advance to production.

Space and Launch revenue grew as a result of a net increase in funded development and production programs, partially offset by a decrease in revenue from the Space Launch Systems (“SLS”). A projected increase in U.S. space launch cadence from commercial and defense missions is likely to result in continued revenue growth in and beyond the current fiscal year.

Tactical Missiles and Integrated Defense Systems revenue grew as a result of a net increase from key programs entering or continuing their production phases within their program lifecycles, partially offset by temporary declines in other programs. This market’s growth continues to be supported by successful system deployments to active conflict zones, the replenishment of U.S. military inventories and continued investment in next-generation capabilities.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$60.7 million for the three months ended March 31, 2025, from \$54.0 million for the three months ended March 31, 2024. The \$6.7 million, or 12.3%, increase in cost of goods sold was primarily a result of increased labor costs to support revenue growth.

	Three Months Ended March 31,		Change	
	2025	2024	Dollar	Percent
	<i>(in thousands, except percent)</i>			
Labor	\$ 27,677	\$ 22,375	\$ 5,302	23.7%
Materials	26,236	25,553	683	2.7%
Overhead	4,091	4,140	(49)	(1.2%)
Depreciation	2,669	1,938	731	37.7%
Total cost of goods sold	<u>\$ 60,673</u>	<u>\$ 54,006</u>	<u>\$ 6,667</u>	12.3%

Gross margin increased by 4.5% to 39.4% for the three months ended March 31, 2025, from 34.9% for the three months ended March 31, 2024, which was primarily driven by operating leverage and improved operating efficiency.

Operating Expenses:

General and Administrative Expenses

General and administrative expenses increased to \$23.3 million for the three months ended March 31, 2025 from \$10.1 million for the three months ended March 31, 2024. General and administrative expenses and the related percentage changes for the three months ended March 31, 2025 and 2024 were as follows:

	Three Months Ended March 31,		Change	
	2025	2024	Dollar	Percent
	<i>(in thousands, except percent)</i>			
Payroll	\$ 6,604	\$ 4,877	\$ 1,727	35.4%
Professional fees	4,386	2,074	2,312	111.5%
Marketing	111	83	28	33.7%
Computers & Software	984	456	528	115.8%
Share-based compensation	8,084	251	7,833	3,120.7%
Other	3,119	2,348	771	32.8%
Total general and administrative expenses	\$ 23,288	\$ 10,089	\$ 13,199	130.8%

The 130.8% increase in general and administrative expenses between the three months ended March 31, 2025 and 2024 was primarily driven by an increase in share-based compensation and professional fees for tax, accounting, and consulting fees primarily related to the IPO. These additional costs reflect the continued expansion of our operational support capabilities and the integration of newly established regional campuses and acquisitions. The increase in general and administrative expenses was partially offset by decreases in bad debt expenses and legal fees.

Depreciation and Amortization

Depreciation and amortization expense increased to \$6.2 million for the three months ended March 31, 2025 compared to \$5.4 million for the three months ended March 31, 2024. The increase in amortization expense for the three months ended March 31, 2025, is primarily attributable to the amortization of \$18.3 million of intangible assets acquired in the RMS acquisition on February 14, 2024. The acquired RMS intangible assets will be amortized over a weighted average period of 12.1 years. Depreciation of fixed assets used in the production of goods sold is included in cost of goods sold.

Interest Expense, net

Interest expense, net for the three months ended March 31, 2025 decreased by \$0.7 million, or (5.7%), to \$11.4 million compared to \$12.1 million during the three month ended March 31, 2024. Both the Revolving Credit Facility and Term Note payable are variable interest rate loans with an applicable spread. For additional information related to debt, see Note 6, Debt, in the Notes to the Condensed Consolidated Financial Statements.

Other Income (expense)

Other income (expense) for the three months ended March 31, 2025 and 2024 was (\$0.1) million and \$0.8 million, respectively. The difference between periods was primarily attributable to the gain from a settlement of a shareholder note in the three months ended March 31, 2024.

Provision for Income Taxes

The provision for income taxes was \$3.3 million and \$0.1 million for the three months ended March 31, 2025 and 2024, respectively. The increase in provision for income taxes was attributable to net loss during the three months ended 31, 2025. For additional information regarding provisions for taxes, see Note 13, Provision for Income Taxes, in the Notes to the Condensed Consolidated Financial Statements.

Key Financial and Non-GAAP Operating Measures

We measure our business using both key financial and operating data including key performance indicators (“KPIs”) and non-GAAP financial measures and use the following metrics to manage our business, monitor results of operations and ensure proper allocation of capital: (i) Revenue, (ii) Funded Backlog, (iii) EBITDA, (iv) Adjusted EBITDA and (v) Adjusted EBITDA Margin. We believe that these financial performance metrics represent the primary drivers of value enhancement, balancing both short and

long-term indicators of increased shareholder value. These are the metrics we use to measure our results and evaluate our business and related contract performance.

Financial and Operating Data

<i>(unaudited, in thousands, except percent)</i>	Three Months Ended March 31,	
	2025	2024
Revenue	\$ 100,124	\$ 83,006
Funded Backlog ¹	636,350	539,979
Net income (loss)	(4,798)	2,122
EBITDA ²	18,752	21,619
Adjusted EBITDA ²	\$ 30,319	\$ 24,297
Net income (loss) margin	(4.8%)	2.6%
Adjusted EBITDA Margin ²	30.3%	29.3%

1. *Funded Backlog* - Represents the total value of existing contracts, less amounts previously invoiced. Contract types include but are not limited to purchase orders, long term agreements and contractual authorization to proceed.
2. Note on non-GAAP financial measures: Throughout the discussion of our results of operations we use non-GAAP financial measures EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin, as measures of our overall performance. Definitions and reconciliations of these measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP are included below.

Non-GAAP Financial Measures

We believe the non-GAAP financial measures will help investors understand our financial condition and operating results and assess our future prospects. We believe these non-GAAP financial measures, each of which is discussed in greater detail below, are important supplemental measures because they exclude unusual or non-recurring items as well as non-cash items that are unrelated to or may not be indicative of our ongoing operating results. Further, when read in conjunction with our U.S. GAAP results, these non-GAAP financial measures provide a baseline for analyzing trends in our underlying businesses and can be used by management as a tool to help make financial, operational and planning decisions. We may use non-GAAP financial metrics in certain Management compensation plans, debt covenants, internal budgetary decision making, and other resource allocation decisions. Finally, these measures are often used by analysts and other interested parties to evaluate companies in our industry by providing more comparable measures that are less affected by factors such as capital structure.

We recognize that these non-GAAP financial measures have limitations, including that they may be calculated differently by other companies or may be used under different circumstances or for different purposes, thereby affecting their comparability from company to company. In order to compensate for these and the other limitations discussed below, management does not consider these measures in isolation from or as alternatives to the comparable financial measures determined in accordance with U.S. GAAP. Readers should review the reconciliations below and should not rely on any single financial measure to evaluate our business.

We define these non-GAAP financial measures as:

EBITDA/Adjusted EBITDA - We define EBITDA as our net income before income taxes, depreciation and amortization and interest expense. References to Adjusted EBITDA refer to EBITDA plus, as applicable for each period any non-cash share-based compensation expenses, including non-cash gains and losses on equity, non-cash gains and losses on derivative instruments associated with equity, termination expenses, and personnel expenses from discontinued operations. Additionally, Adjusted EBITDA excludes certain nonrecurring costs that management excludes in contemplation of budget decisions and are not costs of operating the business such as entity wide re-branding initiatives or acquisition integration costs. Adjusted EBITDA excludes the costs associated with lender and administrative agent fees associated with one-off amendments, as these are not directly related to the operations of the business and are non-recurring. Lastly, Management excludes other non-recurring costs including net gains from disposition of assets, non-cash gains and losses from any hedging arrangements, non-cash impairment losses, business interruption insurance proceeds, and any non-recurring transaction expenses.

Adjusted EBITDA Margin - Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by revenue. Adjusted EBITDA and Adjusted EBITDA Margin are not measures calculated in accordance with U.S. GAAP, and they should not be considered an alternative to any financial measures that were calculated under U.S. GAAP.

Adjusted EBITDA and Adjusted EBITDA Margin are used to facilitate a comparison of the ordinary, ongoing and customary course of our operations on a consistent basis from period to period and provide an additional understanding of factors and trends affecting our business. Adjusted EBITDA and Adjusted EBITDA Margin are driven by changes in volume, performance, contract mix and general and administrative expenses and investment levels. Performance, as used in this definition, refers to changes in profitability and is primarily based on adjustments to estimates at completion on individual contracts. These adjustments result from increases or decreases to the estimated value of the contract, the estimated costs to complete the contract, or both. These measures therefore assist management and our board and may be useful to investors in comparing our operating performance consistently over time as they remove the impact of our capital structure, asset base and items outside the control of the management team and expenses that do not relate to our core operations. Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similarly titled non-GAAP measures used by other companies as other companies may have calculated the measures differently.

Adjusted EPS represents GAAP net income (loss) per fully diluted share, excluding transaction related expenses, integration expenses and non-recurring costs, lender and administrative agent fees and share-based compensation as they are not representative of our operating performance.

The reconciliation of GAAP to non-GAAP financial measures is provided below.

Reconciliation of GAAP to Non-GAAP Financial Measures:

(unaudited, in thousands, except percent)	For the three months ended March 31,	
	2025	2024
Net (loss) income	\$ (4,798)	\$ 2,122
Income tax provision	3,308	87
Depreciation and amortization ¹	8,869	7,350
Interest expense, net	11,373	12,060
EBITDA	18,752	21,619
Transaction related expenses ²	1,962	2,011
Integration expenses and non-recurring restructuring costs ³	261	416
Lender and administrative agent fees ⁴	1,260	—
Share-based Compensation ⁵	8,084	251
Adjusted EBITDA	\$ 30,319	\$ 24,297
Revenue	\$ 100,124	\$ 83,006
Net income (loss) margin	(4.8%)	2.6%
Adjusted EBITDA Margin	30.3%	29.3%

(unaudited)	For the three months ended March 31,	
	2025	2024
GAAP net (loss) income per share and unit, respectively	\$ (0.04)	\$ 0.01
Transaction-related expenses ²	0.02	0.01
Integration expenses and non-recurring restructuring costs ³	—	0.01
Lender and administrative agent fees ⁴	0.01	—
Share-based compensation ⁵	0.06	—
Adjusted EPS	\$ 0.05	\$ 0.03

1. Depreciation and amortization expense includes \$2.7 million and \$1.9 million of allocated depreciation and amortization from cost of goods sold for the three months ended March 31, 2025, and 2024, respectively.
2. Represents legal and due diligence fees incurred in connection with planned and completed acquisitions, which are required to be expensed as incurred. During the periods presented, these costs were incurred for due diligence and legal fees related to an acquisition of equipment and intangible assets. Additionally, the Company incurred certain professional service fees related to its IPO that did not meet the requirements to be deferred issuance costs, these costs are considered non-recurring and outside the ordinary course of business, and therefore are not indicative of ongoing operating performance. During the three months ended March 31, 2025, the \$1.9 million was mostly related to such IPO related expenses.
3. These costs include company-wide system implementation expenses and Company re-branding costs. This category also includes post-acquisition integration costs, and employee expenses related to acquisitions or restructuring activities.
4. Reflects non-recurring lender fees associated with one-off amendments to the Company's credit agreement, separate from ongoing administrative fees.
5. Reflects share-based compensation expenses associated with the Company's P Units and Phantom Units that were fully vested in connection with the completion of the Company's IPO in February 2025.

Although we use EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS as measures to assess the performance of our business and for the other purposes set forth above, the use of non-GAAP financial measures as analytical tools has limitations, and you should not consider any of them in isolation, or as a substitute for analysis of our results of operations as reported in accordance with U.S. GAAP. Some of these limitations are:

- EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin do not reflect the significant interest expense, or the cash requirements, necessary to service interest payments on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and the cash requirements for such replacements are not reflected in EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin;
- EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS exclude the cash expense we have incurred to integrate acquired businesses into our operations, which is a necessary element of certain of our acquisitions;

- the omission of the substantial amortization expense associated with our intangible assets further limits the usefulness of EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin; and
- EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin do not include the payment of taxes, which is a necessary element of our operations.

Because of these limitations, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EPS should not be considered as measures of cash available to us to invest in the growth of our business. Management compensates for these limitations by not viewing EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EPS in isolation and specifically by using other U.S. GAAP measures, such as net sales and operating profit, to measure our operating performance. EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS are not measurements of financial performance under U.S. GAAP, and they should not be considered as alternatives to net income/(loss) or cash flow from operations determined in accordance with U.S. GAAP. Our calculations of EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EPS may not be comparable to the calculations of similarly titled measures reported by other companies.

Critical Accounting Estimates

Our discussion and analysis of financial condition and results of operations discusses our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When we prepare these condensed consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Some of our accounting policies require that we make subjective judgments, including estimates that involve matters that are inherently uncertain. Our most critical estimates include those related to revenue recognition, intangible assets acquired in a business combination and goodwill. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. Management judgments and estimates have been applied consistently and have been reliable historically.

The majority of our revenue is generated pursuant to written contractual arrangements to design, develop, manufacture and/or modify complex products, and to provide related engineering, technical and other services according to customer specifications. In most cases, goods or services provided under the Company's contracts are accounted for as a single performance obligation due to the complex and integrated nature of its products and services. These contracts generally require significant integration of a group of goods and services to deliver a combined output. These contracts may be cost-plus fixed price or time and materials. Revenue is recognized over time using the input method, by tracking costs incurred, which measures progress toward completion and control is transferred as the Company performs its contractual obligations due to the performance having no alternative use and the Company's enforceable right to payment. The Company estimates profit on these contracts as the difference between total estimated revenues and total estimated costs at completion (EAC) and recognizes profit as costs are incurred. Significant judgment is used to estimate total costs at completion. EAC's are estimated using historical actual margins as a percentage of revenue, applied to open jobs. Unforeseen events and circumstances can alter the estimate of the costs and potential benefits associated with a particular contract. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and income. The Company recognizes changes in contract estimates on a cumulative "catch-up" basis in the period in which the changes are identified. Such changes in contract estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in a prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. We test goodwill for impairment annually during the fourth quarter of our fiscal year or when events or circumstances change in a manner that indicates goodwill might be impaired.

For the impairment test, we first assess qualitative factors, macroeconomic conditions, industry and market considerations, triggering events, cost factors, and overall financial performance, to determine whether it is necessary to perform a quantitative goodwill impairment test. Alternatively, we may bypass the qualitative assessment for some or all of its reporting units and apply the quantitative impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). For the quantitative impairment test we estimate the fair value by weighting the results from the income approach and the market approach. These valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and future profitability of its business. For purposes of testing goodwill for impairment, we operate as a single reporting unit. There was no impairment of our goodwill during the three months ended March 31, 2025 or 2024.

Acquired intangible assets include: customer relationships, customer production backlog, patents and know-how. Finite-lived intangible assets are amortized over their estimated useful lives using the straight-line method which approximates the pattern in which the economic benefits of such assets are consumed. We assess amortized intangible assets for impairment when events or circumstances suggest that the carrying values may not be recoverable. This assessment involves comparing the carrying value of the assets to their undiscounted expected future cash flows. If the total undiscounted future cash flows are less than the carrying amount, we recognize an impairment loss equal to the difference between the carrying amount and the fair value of the assets. Determining fair value requires management to make estimates and judgments based on various factors, including projected revenues and associated earnings. We did not recognize any impairment losses during the three months ended March 31, 2025 or 2024.

Material Weaknesses

As a privately-held company, we were not required to evaluate our internal control over financial reporting in a manner that meets the standards of publicly traded companies required by Section 404(a) of the Sarbanes- Oxley Act ("Section 404"). As a public company, we will be subject to significant requirements for enhanced financial reporting and internal controls. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. In addition, we will be required, pursuant to Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting.

The rules governing the standards that must be met for our management to assess our internal control over financial reporting are complex and require significant documentation, testing, and possible remediation. Testing and maintaining internal controls may divert our management's attention from other matters that are important to our business.

The SEC defines a material weakness as "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 the company's annual or interim financial statements will not be prevented or detected on a timely basis." As previously reported in our Form 10-K for the year ended December 31, 2024, the following entity-level material weaknesses have been identified in our internal control over financial reporting.

- we did not fully maintain components of the COSO framework, including elements of the control environment, risk assessment, control activities, information and communication and monitoring activities components, relating to (i) sufficiency of processes related to identifying and analyzing risks to the achievement of objectives, including technology, across the entity, (ii) developing general control activities over technology to support the achievement of objectives across the entity, and (iii) sufficiency of selecting and developing control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

The entity-level material weaknesses contributed to other material weaknesses within our system of internal control over financial reporting as follows:

- we did not design and maintain effective information technology general controls for certain information systems supporting its key financial reporting processes. Specifically, we did not design and maintain sufficient change management, security, operations, and system development controls for management-identified in-scope on-premise applications and vendor-supported applications; and
- we did not design and maintain effective process-level controls for all significant business process cycles;

We have begun the process of evaluating the material weaknesses and developing our full remediation plan. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects. Until the remediation plan is implemented, tested and deemed effective, we cannot assure that our actions will

adequately remediate the material weaknesses or that additional material weaknesses in our internal controls will not be identified in the future. If we are unable to remediate the material weaknesses, our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the Securities and Exchange Commission could be adversely affected and could reduce the market's confidence in our financial statements and harm our stock price. While we will work to remediate the material weaknesses as quickly and efficiently as possible, we cannot at this time provide an expected timeline in connection with any remediation plan. These remediation measures may be time consuming and costly and might place significant demands on our financial and operational resources.

As permitted under the U.S. securities laws, neither we nor our independent registered public accounting firm have performed or are yet required to perform an evaluation of the effectiveness of our internal control over financial reporting. In the future, we may identify additional material weaknesses or significant deficiencies in our internal control over financial reporting.

Our ability to comply with the annual internal control reporting requirements will depend on the effectiveness of our financial reporting and data systems and controls across our company. Any weaknesses or deficiencies or any failure to implement new or improved controls, or difficulties encountered in the implementation or operation of these controls, could harm our operating results and cause us to fail to meet our financial reporting obligations, or result in material misstatements in our condensed consolidated financial statements, which could adversely affect our business and reduce the price of our common stock.

If we are unable to conclude that we have effective internal control over financial reporting, investors could lose confidence in our reported financial information, which could have a material adverse effect on the trading price of our common stock. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital market.

Liquidity and Capital Resources

The following table summarizes our capitalization:

	As of March 31,	
	2025	2024
	<i>(in thousands except ratio)</i>	
Cash and cash equivalents	\$ 113,679	\$ 7,190
Debt:		
Finance lease liabilities (including current portion)	80,608	81,033
Revolving credit facility	—	20,000
Notes Payable, including current portion, net of debt issuance costs	332,559	338,573
Total debt	413,167	439,606
Stockholders' equity and members' equity, respectively	348,918	184,794
Total capitalization (debt plus equity)	\$ 762,085	\$ 624,400
Total debt to total capitalization	1.18	2.38

Our principal historical liquidity requirements have been for organic growth, acquisitions, capital expenditures, servicing indebtedness, including finance lease liability payments, and working capital needs. We do not expect there to be substantial changes in our future capital requirements. We anticipate that over the next 12 months, we will meet our liquidity needs, including debt servicing, through cash generated from operations, available cash balances, and, if necessary, sales of accounts receivable and borrowings from our revolving credit facility. We fund our investing activities primarily from cash provided by our operating and financing activities.

On March 25, 2025, we extended the final maturity date of the term note payable and revolving line of credit with TCW from March 20, 2026 to April 15, 2026. All other material terms of the TCW Term Note and TCW revolving line of credit were unchanged.

In April, 2025, we entered into a new Credit Agreement (the "Citi Credit Agreement") by and among Karman, the lenders from time to time party thereto and Citibank, N.A. ("Citi"), as the administrative agent for the lenders, and, substantially contemporaneously therewith, certain direct and indirect subsidiaries of Karman are expected to terminate all outstanding commitments and repay all outstanding obligations under the TCW Credit Agreement. This transaction resulted in the extinguishment of the aforementioned TCW Term Note and facilities under the TCW Credit Agreement and the issuance of a new \$300.0 million term loan and \$50.0 million revolving line of credit. The new term loan will mature on April 1, 2032 and the new revolving line of credit will mature on April 1, 2030.

Based on our current outlook, we believe that net cash provided by operating activities and net proceeds of \$147.3 million from the offering will be sufficient to fund our cash requirements for at least the next twelve months. As we continue to expand our business, including by any acquisitions we may make, we may in the future require additional working capital for increased costs.

Summary of Statement of Cash Flows

The following table summarizes the primary sources and uses of our cash flow:

	For the three months ended March 31,	
	2025	2024
	<i>(in thousands)</i>	
Net cash provided by (used in):		
Operating activities	\$ (13,584)	\$ 3,070
Investing activities	(11,042)	(32,303)
Financing activities	126,775	30,968
Net increase in cash and cash equivalents	<u>\$ 102,149</u>	<u>\$ 1,735</u>

Operating Activities

Net cash used in operating activities for the three months ended March 31, 2025 was \$13.6 million, primarily consisting of net loss of \$4.8 million, non-cash item of \$13.0 million and a net change in our operating assets and liabilities of \$21.8 million. Change in our operating assets and liabilities was primarily driven by an increase in contract assets of \$14.9 million, a decrease in contract liabilities of \$3.9 million, which was mainly due to initial and subsequent measurement of contracts with customers, changes in business volume, and progress of existing contracts. Change in our operating assets and liabilities was also driven by a decrease in accounts payable, accruals and income tax payable of \$20.0 million, which was mainly due to timing of payment and a decrease in accounts receivable of \$7.5 million, which was due to timing of invoicing and improved collection.

Net cash provided by operating activities for the three months ended March 31, 2024 was \$3.1 million, primarily consisting of net income of \$2.1 million, non-cash items of \$6.2 million and a net change in our operating assets and liabilities of \$5.3 million. Change in our operating assets and liabilities was primarily driven by a decrease in accounts payable, accruals and income tax payable of 5.1 million, which was mainly due timing of payment.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2025 was \$11.0 million, as a result of purchases of property and equipment.

Net cash used in investing activities for the three months ended March 31, 2024 was \$32.3 million, which was principally attributable to the RMS acquisition.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2025 was \$126.8 million, which was primarily driven by net proceeds from our IPO of \$153.8 million, partially offset by repayment of revolving line of credit of \$25.0 million and repayment of notes payable of \$2.3 million.

Net cash provided by financing activities for the three months ended March 31, 2024 was \$31.0 million, which was primarily driven by net proceeds from increasing our TCW Term Note by \$34 million (net of debt issuance costs), partially offset by repayment of TCW Term Note of \$2.7 million.

Other Obligations and Commitments

See Note 6 through Note 8, of the Notes to the Condensed Consolidated Financial Statements for information regarding our other obligations and commitments.

Leases

We lease certain facilities and equipment under financing and operating leases that expire at various dates through 2043. See Note 7, Leases, of the Notes to the Condensed Consolidated Financial Statements for information pertaining to lease payments relating to our operating and finance lease obligations.

Under the provisions of ASC 842, the Company has both finance and operating leases. The Company has recorded both a right-of-use (“ROU”) asset for each applicable lease and an associated liability for the right to use the asset and the obligation for future lease payments. Separate ROUs and liabilities have been recorded for finance and operating leases. ROUs for both lease categories are included in lease assets on the financial statements. Liabilities for both lease categories are included in short-term lease liabilities for amounts due within one year and in noncurrent lease liabilities, net of current portion for remaining amounts due. ROU calculations include management’s assessment of the probability of exercise of lease extensions ranging from 1 to 18 years. No leases include variable lease payments.

Consolidated Lease Summary

On a consolidated basis, lease activity for the three months ended March 31, 2025 and 2024 were as follows:

	Three Months Ended March 31,	
	2025	2024
	<i>(in thousands)</i>	
Finance lease expense		
Amortization of ROU assets	\$ 2,293	\$ 1,513
Interest on lease liabilities	2,268	1,634
Operating lease expense	679	422
Total	\$ 5,240	\$ 3,569

On a consolidated basis, supplemental cash flow information for the three months ended March 31, 2025 and 2024 were as follows:

	Three Months Ended March 31,	
	2025	2024
	<i>(in thousands except percent and year)</i>	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 2,275	\$ 1,634
Financing cash flows from finance leases	\$ 1,226	\$ 329
Operating cash flows from operating leases	\$ 699	\$ 433
ROU assets obtained in exchange for new finance lease liabilities	\$ —	\$ 969
ROU assets obtained in exchange for new operating lease liabilities	\$ 77	\$ —
Weighted-average remaining lease term in years for finance leases	13.63	n/a
Weighted-average remaining lease term in years for operating leases	6.08	n/a
Weighted-average discount rate for finance leases	8.39%	n/a
Weighted-average discount rate for operating leases	9.47%	n/a

Off-Balance Sheet Arrangements

As of March 31, 2025 and 2024, we did not have any off-balance sheet arrangements, as defined in Regulation S-K, that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows.

Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies—Recent Accounting Pronouncements, of the Notes to the Condensed Consolidated Financial Statements for additional information.

JOBS Act Election

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our primary exposure to interest rate risk results from outstanding borrowings under the Revolving Credit Facility and Term Note, both of which have a floating interest rate component. We estimate that a 1% increase in interest rates for the three months ended March 31, 2025 and 2024 would have resulted in approximately a \$0.8 million and \$0.8 million increase in interest expense, respectively.

We had cash of \$113.7 million and \$7.2 million as of March 31, 2025 and 2024, respectively, which is held for working capital and general corporate purposes. We do not have significant amount of cash equivalents or restricted cash and we do not enter into investments for trading or speculative purposes. Our cash holdings in interest bearing accounts are exposed to market risk due to fluctuations in interest rates, which may affect our interest income.

We will continue to monitor market risk due to fluctuations in interest rates and potential impacts to the fair value of our holdings and operating cash flows.

Inflation Risk

We have generally experienced increases in our costs of labor, materials and services consistent with overall rates of inflation, but we do not believe that inflation has had a material effect on our business, results of operations, or financial condition. We expect the impact of such increases will be mitigated by efforts to lower costs through manufacturing efficiencies, look for alternative sourcing and reevaluate pricing, as we did in the prior periods. However, continued cost inflation and supply chain disruptions during 2025 may continue to require similar efforts to mitigate the impact of continued cost inflation and supply chain disruptions on our results of operations. Our inability or failure to offset cost increases could adversely affect our business, results of operations, or financial condition.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

Our principal executive officer and principal financial officer evaluated the effectiveness of our “disclosure controls and procedures” as of March 31, 2025, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, due to the material weaknesses in internal control over financial reporting described below, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are not effective at a reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is accumulated and communicated to a company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period ended March 31, 2025 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Material Weaknesses

As previously reported in our Form 10-K for the year ended December 31, 2024, the following entity-level material weaknesses have been identified:

- we did not fully maintain components of the COSO framework, including elements of the control environment, risk assessment, control activities, information and communication and monitoring activities components, relating to (i) sufficiency of processes related to identifying and analyzing risks to the achievement of objectives, including technology, across the entity, (ii) developing general control activities over technology to support the achievement of objectives across

the entity, and (iii) sufficiency of selecting and developing control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

The entity-level material weaknesses contributed to other material weaknesses within our system of internal control over financial reporting as follows:

- we did not design and maintain effective information technology general controls for certain information systems supporting its key financial reporting processes. Specifically, we did not design and maintain sufficient change management, security, operations, and system development controls for management-identified in-scope on-premise applications and vendor-supported applications; and
- we did not design and maintain effective process-level controls for all significant business process cycles;

We have begun the process of evaluating the material weaknesses and developing our full remediation plan. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects. Until the remediation plan is implemented, tested and deemed effective, we cannot assure that our actions will adequately remediate the material weaknesses or that additional material weaknesses in our internal controls will not be identified in the future. If we are unable to remediate the material weaknesses, our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the Securities and Exchange Commission could be adversely affected and could reduce the market's confidence in our financial statements and harm our stock price. While we will work to remediate the material weaknesses as quickly and efficiently as possible, we cannot at this time provide an expected timeline in connection with any remediation plan. These remediation measures may be time consuming and costly and might place significant demands on our financial and operational resources.

Karman Holdings Inc.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various claims and legal actions that arise in the ordinary course of our business, including claims resulting from employment-related matters. We do not believe that the ultimate resolution of any existing claim would have a material effect on our business, financial condition, results of operations or cash flows.

However, a significant increase in the number of these claims or an increase in amounts owing under successful claims could materially and adversely affect our business, financial condition, results of operations, or cash flows.

ITEM 1A. RISK FACTORS

We have described under the heading “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2024 risks and uncertainties that could cause our actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. These risks and uncertainties are not the only risks facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition, results of operations or the market price of our common stock. There have been no material changes to the risk factors previously described in our 2024 Annual Report on Form 10-K.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

During the quarter ended March 31, 2025, none of our directors or executive officers adopted, modified or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” as such terms are defined under Rule 408 of Regulation S-K.

ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

- (1) Financial Statement Schedules:

All financial statement schedules have been omitted because they are not applicable, not required or the information required is shown in the condensed consolidated financial statements or the notes thereto.

(b) Exhibits

The following documents are included as exhibits to this report.

Exhibit No.	Title of Document
2.1	Plan of Conversion of TCFIII Spaceco Holdings LLC (d/b/a Karman Space and Defense, LLC) (Incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 filed with the SEC on February 10, 2025)
3.1	Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the SEC on February 10, 2025)
3.2	Bylaws (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed with the SEC on February 10, 2025)
4.1	Stockholder Rights Agreement among Karman Holdings Inc. and certain investors (Incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed with the SEC on February 19, 2025)
4.2	Registration Rights Agreement among Karman Holdings Inc. and certain investors (Incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed with the SEC on February 19, 2025)
10.1	Amendment No. Nine to Financing Agreement, dated March 25, 2025, among TCFIII Karman LLC, TCW Asset Management Company and the parties (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-K filed with the SEC on April 10, 2025)
10.2+	Karman Holdings, Inc. 2025 Stock Incentive Plan (Incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed with the SEC on February 13, 2025)
10.3	Credit Agreement, dated as of April 1, 2025, by and among Karman, the lenders from time to time party thereto and Citibank, N.A., as the administrative agent for the lenders (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on April 7, 2025)
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

KARMAN HOLDINGS INC.

Date: May 14, 2025

By: /s/ Mike Willis
Mike Willis
Chief Financial Officer (Principal Financial and Principal Accounting Officer)

Date: May 14, 2025

By: /s/ Tony Koblinski
Tony Koblinski
Chief Executive Officer (Principal Executive Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tony Koblinski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Karman Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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)) for the registrant 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 my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - b) (Paragraph omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a));
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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(s) 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.

/s/ Tony Koblinski

Tony Koblinski
Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2025

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mike Willis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Karman Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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)) for the registrant 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 my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - b) (Paragraph omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a));
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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(s) 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.

/s/ Mike Willis

Mike Willis

Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: May 14, 2025

**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 Karman Holdings Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2025, as filed with the Securities and Exchange Commission (the “Report”), I, Tony Koblinski, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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.

/s/ Tony Koblinski

Tony Koblinski
Chief Executive Officer
(Principal Executive Officer)

Dated: May 14, 2025

**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 Karman Holdings Inc. (the “Company”) on Form 10-K for the period ended March 31, 2025, as filed with the Securities and Exchange Commission (the “Report”), I, Mike Willis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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.

/s/ Mike Willis

Mike Willis
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: May 14, 2025
