

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from to
Commission file number 001-39113

BLACKSKY TECHNOLOGY INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
13241 Woodland Park Road
Suite 300
Herndon, Virginia
(Address of Principal Executive Offices)

47-1949578
(I.R.S. Employer
Identification No.)

20171
(Zip Code)

(571) 267-1571

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
Class A common stock, par value \$0.0001 per share	BKSY	The New York Stock Exchange
Warrants, each whole warrant exercisable for one share of Class A common stock at an exercise price of \$11.50	BKSY.W	The 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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

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

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

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

As of November 6, 2023, there were 142,987,503 shares of the registrant's class A common stock, at \$0.0001 par value, outstanding.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains, and our officers and representatives may from time to time make, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which statements involve substantial risks and uncertainties. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “plan,” “intend,” “could,” “would,” “expect” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. Forward-looking statements included in this Quarterly Report on Form 10-Q include, but are not limited to, statements regarding:

- our ability to retain or recruit key employees;
- our ability to grow distribution channels and partner ecosystems;
- our anticipated capital expenditures, liquidity, and our estimates regarding our capital requirements;
- our ability to integrate proprietary and third-party sensor data;
- our ability to add new satellites to our commercial operations;
- our ability to invest in our software, research and development capabilities;
- our ability to grow a third-party developer community;
- our ability to expand our services and offerings to customers both domestically and internationally;
- our ability to continue delivering data in a cost-effective manner;
- our ability to maintain and protect our brand;
- our ability to expand within our current customer base;
- our ability to compete with legacy satellite imaging providers and other emergent geospatial intelligence providers;
- our ability to maintain intellectual property protection for our products or avoid or defend claims of infringement;
- our ability to comply with laws and regulations applicable to our business;
- our expectations about market trends and needs;
- our estimates of market growth, future revenue, expenses, including stock-based compensation expense, cash flows, capital requirements and additional financing;
- our expectations regarding our ability to progress toward becoming operating cash flow positive;
- our ability to grow our imagery and software analytical services revenue;
- our ability to manage the timing of capital expenditures to allow for additional flexibility to optimize our long-term liquidity requirements;
- our ability to optimize our cash spend to meet short and long-term operational needs;
- the volatility of the trading price of our common stock;
- the performance of our Blacksky Spectra platform;
- our plans and expectations for our next generation satellites (“Gen-3”);
- the impact of local, regional, national and international economic conditions and events; and
- other factors including but not limited to those detailed under the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 and filed by us with the Securities and Exchange Commission (the “SEC”) on March 23, 2023.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, whether written or oral, except as required by law.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BLACKSKY TECHNOLOGY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except par value)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,138	\$ 34,181
Restricted cash	1,835	2,835
Short-term investments	17,543	37,982
Accounts receivable, net of allowance of \$9 and \$0, respectively	2,714	3,112
Amounts receivable from equity method investees	1,146	—
Prepaid expenses and other current assets	5,375	4,713
Contract assets	9,944	5,706
Total current assets	70,695	88,529
Property and equipment - net	74,555	71,584
Operating lease right of use assets - net	1,760	3,586
Goodwill	9,393	9,393
Investment in equity method investees	6,197	5,285
Intangible assets - net	1,497	1,918
Satellite procurement work in process	45,409	50,954
Other assets	3,288	2,841
Total assets	\$ 212,794	\$ 234,090
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,520	\$ 14,368
Amounts payable to equity method investees	—	3,728
Contract liabilities - current	6,621	6,783
Other current liabilities	1,527	2,048
Total current liabilities	18,668	26,927
Long-term contract liabilities	96	109
Operating lease liabilities	3,320	3,132
Derivative liabilities	15,383	5,113
Long-term debt - net of current portion	79,474	76,219
Other liabilities	3,718	716
Total liabilities	120,659	112,216
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Class A common stock, \$0.0001 par value-authorized,300,000 shares; issued, 142,946 and 121,938 shares; outstanding, 140,543 shares and 119,508 shares as of September 30, 2023 and December 31, 2022, respectively.	14	12
Additional paid-in capital	687,303	666,973
Accumulated deficit	(595,182)	(545,111)
Total stockholders' equity	92,135	121,874
Total liabilities and stockholders' equity	\$ 212,794	\$ 234,090

See notes to unaudited condensed consolidated financial statements

BLACKSKY TECHNOLOGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Imagery & software analytical services	\$ 15,264	\$ 13,707	\$ 46,352	\$ 31,249
Professional & engineering services	5,996	3,228	12,632	14,684
Total revenue	21,260	16,935	58,984	45,933
Costs and expenses				
Imagery & software analytical service costs, excluding depreciation and amortization	3,479	3,513	10,634	10,537
Professional & engineering service costs, excluding depreciation and amortization	3,288	4,274	11,137	17,991
Selling, general and administrative	17,572	18,758	55,289	59,041
Research and development	133	197	525	449
Depreciation and amortization	11,304	9,598	32,735	26,166
Operating loss	(14,516)	(19,405)	(51,336)	(68,251)
Gain on derivatives	17,012	7,135	7,445	10,629
Income (loss) on equity method investment	328	(776)	913	694
Interest income	519	486	1,602	664
Interest expense	(2,532)	(1,226)	(6,627)	(3,756)
Other income (expense), net	2	(14)	(1,808)	(54)
Income (loss) before income taxes	813	(13,800)	(49,811)	(60,074)
Income tax expense	(138)	—	(260)	—
Income (loss) from continuing operations	675	(13,800)	(50,071)	(60,074)
Discontinued operations:				
Gain from discontinued operations	—	707	—	707
Income tax (expense) benefit	—	—	—	—
Gain from discontinued operations, net of income taxes	—	707	—	707
Net income (loss)	675	(13,093)	(50,071)	(59,367)
Other comprehensive income	—	—	—	—
Total comprehensive income (loss)	\$ 675	\$ (13,093)	\$ (50,071)	\$ (59,367)
Basic and diluted income (loss) per share of common stock:				
Income (loss) from continuing operations	\$ 0.00	\$ (0.12)	\$ (0.38)	\$ (0.51)
Gain from discontinued operations, net of income taxes	—	0.01	—	0.01
Net income (loss) per share of common stock	\$ 0.00	\$ (0.11)	\$ (0.38)	\$ (0.50)

See notes to unaudited condensed consolidated financial statements

BLACKSKY TECHNOLOGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)
(in thousands)

	Nine Months Ended September 30, 2023					
	Common Stock		Additional Paid-In		Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity	
Balance as of January 1, 2023	119,508	\$ 12	\$ 666,973	\$ (545,111)	\$ 121,874	
Stock-based compensation	—	—	3,214	—	3,214	
Issuance of common stock upon exercise of stock options	129	—	3	—	3	
Issuance of common stock upon vesting of restricted stock awards	11	—	—	—	—	
Issuance of common stock upon vesting of restricted stock units	787	—	—	—	—	
Issuance of common stock, net of equity issuance costs	16,404	2	11,127	—	11,129	
Net loss	—	—	—	(17,315)	(17,315)	
Balance as of March 31, 2023	136,839	14	681,317	(562,426)	118,905	
Stock-based compensation	—	—	2,488	—	2,488	
Issuance of common stock upon exercise of stock options	95	—	2	—	2	
Issuance of common stock upon vesting of restricted stock awards	8	—	—	—	—	
Issuance of common stock upon vesting of restricted stock units	668	—	—	—	—	
Issuance of common stock, net of equity issuance costs	1,039	—	995	—	995	
Withholding of stock units to satisfy tax withholding obligations upon the vesting of restricted stock units and exercise of stock options	(240)	—	(414)	—	(414)	
Net loss	—	—	—	(33,431)	(33,431)	
Balance as of June 30, 2023	138,409	14	684,388	(595,857)	88,545	
Stock-based compensation	—	—	2,562	—	2,562	
Issuance of common stock upon exercise of stock options	98	—	4	—	4	
Issuance of common stock upon vesting of restricted stock awards	8	—	—	—	—	
Issuance of common stock upon vesting of restricted stock units	1,664	—	—	—	—	
Issuance of common stock, net of equity issuance costs	804	—	908	—	908	
Withholding of stock units to satisfy tax withholding obligations upon the vesting of restricted stock units and exercise of stock options	(440)	—	(559)	—	(559)	
Net income	—	—	—	675	675	
Balance as of September 30, 2023	140,543	\$ 14	\$ 687,303	\$ (595,182)	\$ 92,135	

See notes to unaudited condensed consolidated financial statements

BLACKSKY TECHNOLOGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)
(in thousands)

	Nine Months Ended September 30, 2022				Total Stockholders' Equity
	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	
Balance as of January 1, 2022	114,452	\$ 11	\$ 650,518	\$ (470,909)	\$ 179,620
Stock-based compensation	—	—	10,862	—	10,862
Issuance of common stock upon exercise of stock options	404	—	17	—	17
Issuance of common stock upon vesting of restricted stock awards	129	—	—	—	—
Issuance of common stock upon vesting of restricted stock units	4,816	1	—	—	1
Withholding of restricted stock to satisfy tax withholding obligations upon the vesting of the related restricted stock	(1,874)	—	(3,616)	—	(3,616)
Net loss	—	—	—	(19,992)	(19,992)
Balance as of March 31, 2022	117,927	12	657,781	(490,901)	166,892
Stock-based compensation	—	—	3,365	—	3,365
Issuance of common stock upon exercise of stock options	180	—	8	—	8
Issuance of common stock upon vesting of restricted stock awards	27	—	—	—	—
Issuance of common stock upon vesting of restricted stock units	520	—	—	—	—
Withholding of restricted stock units to satisfy tax withholding obligations upon the vesting of restricted stock units	(201)	—	(444)	—	(444)
Net loss	—	—	—	(26,282)	(26,282)
Balance as of June 30, 2022	118,453	\$ 12	\$ 660,710	\$ (517,183)	\$ 143,539
Stock-based compensation	—	—	3,423	—	3,423
Issuance of common stock upon exercise of stock options	54	—	12	—	12
Issuance of common stock upon vesting of restricted stock awards	22	—	—	—	—
Issuance of common stock upon vesting of restricted stock units	633	—	—	—	—
Withholding of restricted stock units to satisfy tax withholding obligations upon the vesting of restricted stock units	(241)	—	(491)	—	(491)
Repurchase and retirement of common stock	(15)	—	—	(30)	(30)
Net loss	—	—	—	(13,093)	(13,093)
Balance as of September 30, 2022	118,906	\$ 12	\$ 663,654	\$ (530,306)	\$ 133,360

See notes to unaudited condensed consolidated financial statements

BLACKSKY TECHNOLOGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (50,071)	\$ (59,367)
Gain from discontinued operations, net of income taxes	—	707
Loss from continuing operations	(50,071)	(60,074)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	32,735	26,166
Operating lease right of use assets amortization	753	1,197
Bad debt expense	39	13
Stock-based compensation expense	7,725	16,389
Amortization of debt discount and issuance costs	249	1,549
Income on equity method investment	(913)	(694)
Loss on disposal of property and equipment	127	—
Gain on derivatives	(7,445)	(10,629)
Interest income	(551)	(373)
Other, net	—	106
Changes in operating assets and liabilities:		
Accounts receivable	359	(2,485)
Contract assets - current and long-term	(5,271)	(4,237)
Prepaid expenses and other current assets	(13)	657
Other assets	1,144	(1,335)
Accounts payable and accrued liabilities	834	692
Other current liabilities	(640)	(1,727)
Contract liabilities - current and long-term	(175)	(2,774)
Other liabilities	5,316	(1,872)
Net cash used in operating activities	(15,798)	(39,431)
Cash flows from investing activities:		
Purchase of property and equipment	(12,296)	(8,905)
Satellite procurement work in process	(23,603)	(25,421)
Purchases of short-term investments	(29,167)	(50,343)
Proceeds from maturities of short-term investments	50,110	—
Proceeds from sale of property and equipment	22	—
Distributions from equity method investment	—	546
Net cash used in investing activities	(14,934)	(84,123)
Cash flows from financing activities:		
Proceeds from equity issuances, net of equity issuance costs	30,868	—
Proceeds from options exercised	9	37
Payments of transaction costs for debt modification	(1,311)	—
Payments of transaction costs related to derivative liabilities	(905)	—
Withholding tax payments on vesting of restricted stock units	(972)	(4,551)
Net cash provided by (used in) financing activities	27,689	(4,514)
Net decrease in cash, cash equivalents, and restricted cash	(3,043)	(128,068)
Cash, cash equivalents, and restricted cash – beginning of year	37,016	168,104
Cash, cash equivalents, and restricted cash – end of period	\$ 33,973	\$ 40,036

See notes to unaudited condensed consolidated financial statements

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the unaudited condensed consolidated balance sheets that sum to the total of the same such amounts shown in the unaudited condensed consolidated statements of cash flows:

	September 30,	
	2023	2022
Cash and cash equivalents	\$ 32,138	\$ 37,201
Restricted cash	1,835	2,835
Total cash, cash equivalents, and restricted cash	<u>\$ 33,973</u>	<u>\$ 40,036</u>

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ —	\$ 5
Cash paid for income taxes	182	—
Supplemental disclosures of non-cash financing and investing information:		
Property and equipment additions (credits received) accrued but not yet paid, net	\$ (226)	\$ 4,329
Capitalized stock-based compensation	539	1,261
Capitalized interest for property and equipment placed into service	220	220
Accretion of short-term investments' discounts and premiums	531	357
Repurchase and retirement of common stock	—	30
Equity issuance costs accrued but not paid	90	—
Debt modification costs accrued but not paid	6	—
Satellite procurement costs included in settlement with LeoStella	36	—
Credits from LeoStella applied to satellite procurement costs	122	—
Contingent liability for working capital adjustment and use taxes to M&Y Space Co. Ltd	—	707
Increase of debt principal for paid-in-kind interest	3,490	—

See notes to unaudited condensed consolidated financial statements

BLACKSKY TECHNOLOGY INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2023

1. Organization and Business

BlackSky Technology Inc. (“BlackSky” or the “Company”), headquartered in Herndon, Virginia, is a leading provider of real-time geospatial intelligence. The Company owns and operates one of the industry’s leading high-performance low earth orbit (“LEO”) small satellite constellations. The constellation is optimized to cost-efficiently capture imagery at high revisit rates where and when customers need it. The BlackSky Spectra software platform processes millions of observations a day from our proprietary satellite constellation and from multiple external data sources including imaging, radar and radio frequency satellites, environmental sensors, asset tracking sensors, Internet of Things (“IoT”) connected devices, internet-enabled narrative sources, and a variety of geotemporal data feeds. Blacksky Spectra employs advanced, proprietary artificial intelligence (“AI”) and machine learning (“ML”) techniques to process, analyze, and transform these data feeds into alerts, information, and insights. Customers can access Blacksky Spectra’s data and analytics through easy-to-use web services or through platform application programming interfaces.

BlackSky has two primary operating subsidiaries, BlackSky Global LLC and BlackSky Geospatial Solutions, Inc. The Company also owns fifty percent of LeoStella LLC (“LeoStella”), its joint venture with Thales Alenia Space US Investment LLC (“Thales”). LeoStella is a vertically-integrated small satellite design and manufacturer based in Tukwila, Washington, from which the Company procures satellites to operate its business. The Company accounts for LeoStella and X-Bow Launch Systems Inc. (“X-Bow”), a space technology company specializing in additive manufacturing of solid rocket motors of which BlackSky owns less than 20%, as equity method investments (see Note 6).

In November 2023, the Company sold its equity method investment in X-Bow and expects to recognize a gain on the disposal of the investment of \$9.5 million.

The Company’s equity issuances in the nine months ended September 30, 2023 included a private placement and an at-the-market (“ATM”) offering. In March 2023, the Company completed a private placement of 16.4 million of the Company’s Class A common stock and an equal number of corresponding warrants, for a purchase price of \$1.79 per share and associated warrant. The Company received \$29.4 million in gross proceeds from the private placement. The Company also sold 1.8 million common shares in its ATM offering, at an average purchase price per share of \$ 1.59, resulting in gross proceeds of \$2.9 million. The transaction costs for these equity issuances consisted of legal fees, accounting fees, placement agent fees, and other third-party costs directly related to the equity issuances. During the nine months ended September 30, 2023, \$1.6 million of transaction costs that had been incurred were recorded as a reduction to additional paid-in capital in the unaudited condensed consolidated statements of changes in stockholders’ equity and unaudited condensed consolidated balance sheets, and as a reduction to the proceeds from the transaction in the unaudited condensed consolidated statements of cash flows.

On May 9, 2023, BlackSky and its subsidiaries entered into the Second Amendment (the “Amendment”) to its Amended and Restated Loan and Security Agreement with Intelsat Jackson Holdings SA (“Intelsat”) and Seahawk SPV Investment LLC (“Seahawk”), dated October 31, 2019 and previously amended on September 9, 2021. The Amendment amended the secured loan facility to, among other things, extend the maturity date of the loan, roll the cash interest payment due on May 1, 2023 into the outstanding principal to be paid on the maturity date, and increase the interest rate. See Note 9 for more information regarding the Amendment.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Preparation

The Company has prepared its unaudited condensed consolidated financial statements in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP") and the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In addition, the unaudited condensed consolidated financial statements include the Company's proportionate share of the earnings or losses of its equity method investments and a corresponding increase or decrease to its investment, with recorded losses limited to the carrying value of the Company's investment. All intercompany transactions and balances have been eliminated upon consolidation.

Effective January 1, 2022, the Company reorganized its captions in the unaudited condensed consolidated statements of operations and comprehensive income (loss) to better align the Company's broad portfolio. As a result, for the nine months ended September 30, 2022, the amounts presented to reflect the impact of the reorganization have been recasted. This resulted in a \$6.9 million reclassification between imagery & software analytical services revenue and professional & engineering services revenue and a \$6.0 million reclassification between imagery & software analytical service costs, excluding depreciation and amortization and professional & engineering service costs, excluding depreciation and amortization in the Company's unaudited condensed consolidated statements of operations and comprehensive income (loss).

As previously disclosed in the Company's Form 10-K for the year ended December 31, 2022, effective January 1, 2022, the Company adopted Accounting Standards Codification ("ASC") Topic 842, *Leases*, using the modified retrospective method, with the cumulative effect of initially applying these updates recognized at the date of initial application. The adoption of this standard is reflected in the amounts and disclosures set forth in this Form 10-Q. In accordance with the adoption on a modified retrospective basis, comparative periods prior to the effective date were adjusted, resulting in a \$53 thousand change to selling, general and administrative for the nine months ended September 30, 2022 in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

The Company's unaudited condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, including derivative financial instruments, which are stated at fair value. Unless otherwise indicated, amounts presented in the Notes pertain to the Company's continuing operations.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the reporting date, and the reported amounts of revenue and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could materially differ from these estimates. Significant estimates made by the Company include, but are not limited to, revenue and associated cost recognition, the collectability of accounts receivable, the recoverability and useful lives of property and equipment, the valuation of equity warrants and warrant liabilities, fair value estimates, the recoverability of goodwill and intangible assets, the provision for income taxes, the incremental borrowing rate to measure the operating lease right of use assets, and stock-based compensation.

Investments

The Company invests in short-term investments, which generally consist of A-1, or higher, rated corporate debt and governmental securities. The investments are classified as held-to-maturity and have a stated maturity date of one year or less from the balance sheet date. Any investments with original maturities less than three months are considered cash equivalents.

As of September 30, 2023 and December 31, 2022, the Company's short-term investments had a carrying value of \$7.5 million and \$38.0 million, respectively, which represents amortized cost, and an aggregate fair value of \$17.5 million and \$37.9 million, respectively, which represents a Level 1 measurement based off of the fair value hierarchy. The gross unrecognized holding losses as of September 30, 2023 and December 31, 2022 were \$0 and \$0.1 million, respectively; there were not any gross unrecognized holding gains as of September 30, 2023 or December 31, 2022.

Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The process for analyzing the fair value measurement of certain financial instruments on a recurring, or non-recurring, basis includes significant judgment and estimates of inputs including, but not limited to, share price, volatility, discount for lack of marketability, application of an appropriate discount rate, and probability of liquidating events. The Company utilizes the market valuation methodology and specific option pricing methodology, such as the Monte Carlo simulation, method to value the more complex financial instruments and the Black-Scholes option-pricing model to value standard common stock warrants and common stock options.

The framework for measuring fair value specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs. Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 Inputs. Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 Inputs. Inputs are unobservable inputs which reflect the Company's own assumptions on what assumptions market participants would use in pricing the asset or liability based on the best available information.

Revenue Recognition

The Company generates revenue from the sale of imagery and software analytical services and professional and engineering services. Imagery and software analytical services revenue includes imagery, data, software, and analytics. This revenue is recognized from services rendered under non-cancellable subscription order agreements or variable not-to-exceed purchase orders. Professional and engineering services revenue is generated from both time and materials basis contracts and firm fixed price service solutions contracts and firm fixed price long-term engineering and construction contracts.

The Company generates revenue primarily through contracts with government agencies. Some of the fixed price contracts include multiple promises, which may result in distinct performance obligations. The Company allocates the transaction price to each performance obligation based on the relative standalone selling prices using observable sales transactions where applicable.

In accordance with Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606"), the Company uses the five-step model of identifying the contract with a customer, identifying the performance obligations contained in a contract, determining transaction price, allocating

transaction price, and determining when performance obligations are satisfied, which can require the application of significant judgment, as further discussed below.

Revenue is measured at the fair value of consideration received or receivable and net of discounts. The Company applies a policy election to exclude transaction taxes collected from customer sales when the tax is both imposed on and concurrent with a specific revenue-producing transaction. The Company estimates any variable consideration, and whether the transaction price is constrained, upon execution of each contract. The Company did not have any active contracts with significant variable consideration as of September 30, 2023.

Imagery & Software Analytical Services Revenue

Imagery

Imagery services include imagery delivered from the Company's satellites in orbit via the BlackSky Spectra software platform and in limited cases directly uploaded to certain customers. Customers can directly task our proprietary satellite constellation to collect and deliver imagery over specific locations, sites and regions that are critical to their operations. We offer customers several service level options that include basic plans for on-demand tasking or multi-year assured access programs, where customers can secure priority access and imaging capacity at a premium over a region of interest on a take or pay basis. Imagery revenue is recognized ratably over the subscription period or at the point in time the customer receives access to the imagery.

Data, Software, and Analytics

The Company leverages proprietary AI and ML algorithms to analyze data coming from both the Company's proprietary sensor network and third-party space and terrestrial sources to provide hard-to-get data, insights, and analytics for customers. The Company continues to integrate and enhance its offerings by performing contract development, while retaining the intellectual property rights. The Company also offers services related to object, change and anomaly detection, site monitoring, and enhanced analytics, through which the Company can detect key pattern of life changes in critical locations such as ports, airports, and construction sites; retail activity; commodities stockpiles; and other sites that contain critical commodities and supply chain inventory.

Our analytics services are also offered on a subscription or consumption basis and provide customers with access to our site monitoring, event monitoring and global data services. Software analytical services revenue derived from data, software, and analytics is recognized from the rendering of analytical and monitoring services over time on a firm fixed price basis, or at the point in time the customer receives access to an analytic product.

Professional and Engineering Services Revenue

The Company performs various professional and engineering services, including providing technology enabled professional service solutions to support customer-specific software development requests, integration, testing, and training, as well as developing and delivering advanced satellite and payload systems for a limited number of customers that leverage the Company's capabilities in mission systems engineering and operations, ground station operations, and software and systems development.

For firm fixed price professional and engineering service contracts, the Company recognizes revenue over time using the cost-to-cost method to measure progress to complete the performance obligation, ("Estimate at Completion" or "EAC"). A performance obligation's EAC includes all direct costs such as labor and fringe, materials, subcontract costs and overhead. We recognize changes in estimated contract sales or costs and the resulting changes in contract profit on a cumulative basis. If it is determined that a loss is expected to result in an individual performance obligation, the entire amount of the estimable future loss is charged against income in the period the loss is identified. The following table presents the effect of aggregate net EAC adjustments on our professional and engineering services contracts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023 ⁽¹⁾	2022 ⁽²⁾	2023 ⁽¹⁾	2022 ⁽²⁾
	(in thousands)			
Revenue	\$ 1,002	\$ (273)	\$ (498)	\$ (1,979)

⁽¹⁾ For the three and nine months ended September 30, 2023, we had favorable EAC adjustments of \$ 1.0 million and \$ 1.1 million, respectively, for a new individual professional services contract.

⁽²⁾ For the three and nine months ended September 30, 2022, the amounts represent the effect of aggregate net EAC adjustments on two professional and engineering service contracts

During the three and nine months ended September 30, 2023 and 2022, there was no revenue recognized from performance obligations satisfied in previous periods.

For contracts structured as cost-plus-fixed-fee or on a time and materials basis, the Company generally recognizes revenue based on the right-to-invoice when practically expedient, as the Company is contractually able to invoice the customer based on the control transferred to the customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date.

Imagery and Software Analytical Service and Professional and Engineering Service Costs

Imagery and software analytical service costs primarily include internal labor to support the ground station network and space operations, third-party data and imagery, and cloud computing and hosting services. The Company recognizes stock-based compensation expense for those employees whose work supports the imagery and software analytical service costs we provide to customers, under imagery and software analytical service costs, excluding depreciation and amortization. For those employees who provide these services to support customer-based programs, the stock-based compensation expense is classified under imagery and software analytical services costs.

Professional and engineering service costs primarily include the cost of internal labor for design and engineering in support of long-term development contracts for satellites and payload systems, as well as subcontract direct materials and external labor costs to build and test specific components, such as the communications system, payload demands, and sensor integration. In addition, we also recognize internal labor costs and external subcontract labor costs for our customer-centric software service solutions. We recognize stock-based compensation expense for those employees who provide professional and engineering services support to customers, under professional and engineering service costs, excluding depreciation and amortization.

Sponsor Shares

On September 9, 2021, BlackSky's predecessor company, Osprey Technology Acquisition Corp. ("Osprey"), completed its merger (the "Merger") with Osprey Technology Merger Sub, Inc., a wholly owned subsidiary of Osprey, and BlackSky Holdings, Inc. ("Legacy BlackSky"). Osprey pre-Merger class B common shares were exchanged for shares of the Company's class A common stock (the "Sponsor Shares") upon completion of the Merger. The Company accounted for the Sponsor Shares in accordance with the guidance contained in ASC 815-40, under which the Sponsor Shares did not meet the criteria for equity treatment and were recorded as derivative liabilities in the Company's unaudited condensed consolidated balance sheets as of September 30, 2023. The Sponsor Shares are adjusted to fair value at each reporting period and the change in fair value is recognized in gain on derivatives in the Company's unaudited condensed consolidated statements of operations and comprehensive income (loss).

Warrant Liability

In October 2019, Osprey, BlackSky's predecessor company and special purpose acquisition company, issued 15.8 million public warrants and 8.3 million private placement warrants in connection with its public offering. In March 2023, the Company issued 16.4 million private placement warrants in connection with a private placement of shares of Class A common stock and accompanying warrants (see Note 10 and Note 12). The Company accounts for its warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in ASC 480, "*Distinguishing Liabilities from Equity*" ("ASC 480") and ASC 815, "*Derivatives and Hedging*" ("ASC 815"). The assessment considers whether the warrants are freestanding financial instruments that would require classification as a liability under ASC 480, as well as whether the warrants qualify for equity classification or require liability classification after consideration of the guidance and criteria outlined in ASC 815, including whether the warrants are indexed to the Company's own common shares and whether the warrant holders could potentially require "net cash settlement" in a circumstance outside of the Company's control, among other conditions that impact classification. This assessment, which requires the use of professional judgment, is conducted at the time of warrant issuance.

For issued or modified warrants that meet all of the criteria for equity classification, the warrants are required to be recorded as a component of additional paid-in capital at the time of issuance. For issued or modified warrants that do not meet all of the criteria for equity classification, the warrants are required to be recorded at their initial fair value on the date of issuance. The Company accounted for the warrants issued in October 2019 and March 2023 in accordance with the guidance contained in ASC 815-40-55-2 as liabilities at their fair value.

As of September 30, 2023, the Company's unaudited condensed consolidated balance sheets included liability classified warrants, reported as derivative liabilities. The fair value of the public warrants was estimated as of September 30, 2023 using the public warrants' quoted market price. The October 2019 and March 2023 private placement warrants were valued using a Black-Scholes option pricing model for initial and subsequent measurements. The liabilities associated with the public warrants and the private placement warrants are subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in gain on derivatives in the Company's unaudited condensed consolidated statements of operations and comprehensive income (loss).

Stock-Based Compensation

Restricted Stock Awards and Restricted Stock Units

The Company has granted restricted stock awards ("RSAs") and grants restricted stock units ("RSUs") to certain employees, for which the grant date fair value is equal to the trading price fair value of the Class A common stock on the date of grant. In order to determine the fair value of its Class A common stock on the date of grant and prior to the Merger, Legacy BlackSky historically performed a valuation analysis using a

combination of market and income approaches. Subsequent to the Merger, the Company uses the New York Stock Exchange (“NYSE”) trading price as the fair value of the Class A common stock for valuation purposes. For all awards for which vesting is only subject to a service condition, including those subject to graded vesting, the Company has elected to use the straight-line method to recognize the fair value as compensation cost over the requisite service period.

Certain of the Company’s outstanding RSUs had performance vesting conditions that were triggered upon the consummation of the Merger. Therefore, since the performance conditions attributable to these RSUs had been met, the Company commenced recording the associated compensation expense, inclusive of a catch-up amount for the service period between their grant date and satisfaction of the performance condition, as of the closing of the Merger. The fair value of the RSUs that include a performance condition is recognized as compensation expense over the requisite service period using the accelerated attribution method, which accounts for RSUs with discrete vesting dates as if they were a separate award. Expense related to stock-based payments is classified in the unaudited condensed consolidated statements of operations and comprehensive income (loss) based upon the classification of each employees’ cash compensation.

Stock Options

The Company uses the Black-Scholes option pricing model to value all options and the straight-line method to recognize the fair value as compensation cost over the requisite service period. The fair value of each option granted was estimated as of the date of grant. The Company granted options in the nine months ended September 30, 2023. The Company uses the following inputs when applying the Black-Scholes option pricing model:

Expected Dividend Yield. The Black-Scholes valuation model requires an expected dividend yield as an input. The dividend yield is based on historical experience and expected future changes. The Company currently has no plans to pay dividends on its Class A common stock.

Expected Volatility. The Company does not have enough historical share price history; therefore, the expected volatility was estimated based upon the historical share price volatility of guideline comparable companies.

Risk-free Interest Rate. The yield on actively traded non-inflation indexed U.S. Treasury notes was used to extrapolate an average risk-free interest rate based on the expected term of the underlying grants.

Expected Term. For options granted in 2021 through 2023, since there was not a history of option exercises as a public company, the Company considered the option vesting terms and contractual period, as well as the demographics of the holders, in estimating the expected term. For options granted prior to 2021, the expected term was the estimated duration to a liquidation event based on a weighted average consideration of the most likely exit prospects for that stage of development. Legacy BlackSky was privately funded and, accordingly, the lack of marketability was factored into the expected term of options granted. The Company will review its estimate in the future and adjust it, if necessary, due to changes in the Company’s historical exercises.

The most significant assumption used to determine the fair value of the Legacy BlackSky equity-based awards was the estimated fair value of the Class A common stock on the grant date. In order to determine the fair value of its Class A common stock on the date of grant and prior to the Merger, Legacy BlackSky historically performed a valuation analysis using a combination of market and income approaches. Subsequent to the Merger, the Company uses the NYSE trading price as the fair value of the Class A common stock for valuation purposes.

Legacy BlackSky historically adjusted the exercise price of certain outstanding stock options. For each award with an adjusted exercise price, Legacy BlackSky calculated the incremental fair value, which was the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. The incremental fair value was recognized as stock-based compensation expense immediately to the extent that the modified stock option already had vested, and for stock options that were not yet vested, the incremental fair value has been recognized as stock-based compensation expense over the remaining vesting period.

Transaction Costs

Transaction costs consist of legal fees, accounting fees, placement agent fees, commissions, and other third-party costs related directly to equity issuances and debt restructuring. Transaction costs incurred for equity issuances are allocated to the components of the transaction based on their relative fair market value, including common equity and equity warrants classified as derivatives and, as such, based on the Company's allocation, are either expensed in the unaudited condensed consolidated statements of operations and comprehensive income (loss) or recorded as a reduction to additional paid-in capital in the unaudited condensed consolidated statements of changes in stockholders' equity and unaudited condensed consolidated balance sheets.

The Company also incurred lender fees and other incremental third-party costs associated with its debt Amendment, as described in Note 9 below. Lender fees were capitalized and included in long-term debt - net of current portion in the unaudited condensed consolidated balance sheets. Third-party costs associated with the debt modification were expensed in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

3. Accounting Standards Updates (“ASU”)

Accounting Standards Recently Adopted

Effective January 1, 2023, the Company adopted ASU No. 2016-13, “*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*”. The amendments in this update are primarily for entities holding financial assets and net investment leases measured under an incurred loss impairment methodology. The new methodology reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, which includes losses on trade accounts receivable. This ASU was applied on a modified retrospective basis. There were no material impacts to the consolidated financial statements upon adoption.

4. Revenue

Disaggregation of Revenue

The Company earns revenue through the sale of imagery and software analytical services and professional and engineering services. The Company's management primarily disaggregates revenue as follows: (i) imagery; (ii) data, software and analytics; (iii) professional services; and (iv) engineering services. This disaggregation allows the Company to evaluate market trends in certain imagery and software analytical services and professional and engineering services.

The following table disaggregates revenue by type for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Imagery	\$ 13,507	\$ 10,769	\$ 39,197	\$ 21,212
Data, software, and analytics	1,757	2,938	7,155	10,037
Professional services	5,565	1,284	11,900	6,864
Engineering services	431	1,944	732	7,820
Total revenue	\$ 21,260	\$ 16,935	\$ 58,984	\$ 45,933

The approximate revenue based on geographic location of customers is as follows for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
North America	\$ 14,433	\$ 15,161	\$ 42,944	\$ 38,740
Middle East	2,738	969	5,633	2,345
Asia Pacific	3,827	40	9,629	3,618
Other	262	765	778	1,230
Total revenue	\$ 21,260	\$ 16,935	\$ 58,984	\$ 45,933

Revenue from categories of customers for the three and nine months ended September 30, 2023 and 2022 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
U.S. federal government and agencies	\$ 14,041	\$ 14,858	\$ 41,780	\$ 38,083
International governments	6,846	1,822	16,100	7,309
Commercial and other	373	255	1,104	541
Total revenue	\$ 21,260	\$ 16,935	\$ 58,984	\$ 45,933

As of September 30, 2023 and December 31, 2022, accounts receivable consisted of the following:

	September 30,	December 31,
	2023	2022
	(in thousands)	
U.S. federal government and agencies	\$ 1,996	\$ 2,540
International governments	369	261
Commercial and other	368	311
Allowance for doubtful accounts	(19)	—
Total accounts receivable	\$ 2,714	\$ 3,112

Backlog

Backlog represents the future sales the Company expects to recognize on firm orders it receives and is equivalent to the Company's remaining performance obligations at the end of each period. It comprises both funded backlog (firm orders for which funding is authorized and appropriated) and unfunded backlog. The Company's backlog excludes unexercised contract options. As of September 30, 2023, the Company had \$252.4 million of backlog, which represents the transaction price of executed contracts less inception to date revenue recognized. The Company expects to recognize revenue relating to its backlog, of which a portion is recorded in deferred revenue in the unaudited condensed consolidated balance sheets, of \$24.4 million, \$52.6 million, and \$175.4 million in the three months ending December 31, 2023, fiscal year 2024, and thereafter, respectively.

5. Contract Assets and Liabilities

The components of contract assets and contract liabilities consisted of the following:

	September 30, 2023	December 31, 2022
	(in thousands)	
Contract assets - current:		
Unbilled revenue	\$ 9,944	\$ 5,706
Total contract assets - current	\$ 9,944	\$ 5,706
Contract assets - long-term:		
Unbilled revenue - long-term	\$ 2,411	\$ 1,287
Contract assets - long-term	590	681
Total contract assets - long-term⁽¹⁾	\$ 3,001	\$ 1,968
Contract liabilities - current:		
Deferred revenue - current	\$ 6,621	\$ 6,783
Total contract liabilities - current	\$ 6,621	\$ 6,783
Contract liabilities - long-term:		
Other contract liabilities - long-term	\$ 96	\$ 109
Total contract liabilities - long-term	\$ 96	\$ 109

(1) Total contract assets - long term is included in other assets in the unaudited condensed consolidated balance sheets.

Contract liabilities include payments received and billings made in advance of the satisfaction of performance obligations under the contract and are realized when the associated revenue is recognized under the contract. Contract assets include (i) unbilled revenue, which is the amount of revenue recognized in excess of the amount billed to customers, where the rights to payment are not just subject to the passage of time; and (ii) costs incurred incremental to the contract and to fulfill contract obligations. Other contract assets and other contract liabilities primarily relate to contract commissions on customer contracts.

Changes in short-term and long-term contract assets and contract liabilities for the nine months ended September 30, 2023 were as follows:

	Contract Assets	Contract Liabilities
	(in thousands)	
Balance as of January 1, 2023	\$ 7,674	\$ 6,892
Billings or revenue recognized that was included in the beginning balance	(2,955)	(6,117)
Changes in contract assets or contract liabilities, net of reclassification to receivables	8,617	5,757
Cumulative catch-up adjustment arising from changes in estimates to complete	(92)	49
Cumulative catch-up adjustment arising from contract modifications	(208)	149
Changes in costs to fulfill and amortization of commission costs	(91)	—
Changes in contract commission costs	—	(13)
Balance as of September 30, 2023	\$ 12,945	\$ 6,717

6. Equity Method Investments

LeoStella

The Company accounts for its investment in LeoStella as an equity method investment. The Company did not make any additional capital investments in LeoStella during the three and nine months ended September 30, 2023 or 2022.

LeoStella's revenue from related parties was \$3.3 million and \$3.0 million for the three months ended September 30, 2023 and 2022, respectively, and \$17.9 million and \$20.2 million for the nine months ended September 30, 2023 and 2022, respectively. The Company had differences between the carrying value of its equity method investments and the underlying equity in the net assets of the investees of \$2.2 million and \$2.6 million as of September 30, 2023 and December 31, 2022, respectively. The difference is the result of the elimination of upstream intra-entity profits from the sale of satellites.

The following table presents summarized financial information for the Company's investments in LeoStella and X-Bow for the three and nine months ended September 30, 2023 and 2022.

Summarized statements of operations	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Revenue	\$ 9,190	\$ 3,697	\$ 32,936	\$ 34,956
Net loss	(2,950)	(3,784)	(6,750)	(2,718)

7. Discontinued Operations

On June 12, 2020, the Company completed the sale of 100% of its equity interests in Spaceflight to M&Y Space. Under a transition services agreement that ended in March 2022, the Company provided post-closing transition services to Spaceflight, including, but not limited to, the sublease of the Company's office facility in Seattle, Washington and common area maintenance fees related to the sublease.

Settlement Arrangement for the Sale of Spaceflight

On February 9, 2022, the Company received an indemnification claim notice regarding certain collection and tax payments related to the Share Purchase Agreement dated as of January 31, 2020 among BlackSky Holdings, Inc., Spaceflight, and M&Y Space. On October 21, 2022, the parties agreed to the framework for a global settlement of such indemnification claims, to include a settlement payment by the Company of \$1.0 million and a holdback amount of \$0.1 million subject to M&Y Space Co.'s ability to collect against certain receivables. As a result, the existing contingent liability was reduced by \$0.7 million, which was recorded as a gain from discontinued operations in the nine months ended September 30, 2022.

The following summarizes the components of the gain from discontinued operations, net of income taxes that the Company has reported in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(in thousands)				
Major classes of line items constituting loss from discontinued operations:				
Revenue - launch services	\$ —	\$ —	\$ —	\$ —
Total operating costs and expenses	—	—	—	—
Operating loss	—	—	—	—
Loss from discontinued operations, before income taxes	—	—	—	—
Gain from discontinued operations	—	707	—	707
Total gain from discontinued operations, net of income taxes	—	707	—	707

8. Property and Equipment - net

The following summarizes property and equipment - net as of:

	September 30,	December 31,
	2023	2022
(in thousands)		
Satellites	\$ 125,124	\$ 116,219
Software	14,372	8,503
Software development in process	5,827	2,942
Computer equipment	1,665	1,996
Office furniture and fixtures	4,015	674
Other equipment	731	631
Site equipment	2,747	2,558
Total	154,481	133,523
Less: accumulated depreciation	(79,926)	(61,939)
Property and equipment — net	\$ 74,555	\$ 71,584

9. Debt and Other Financing

The carrying value of the Company's outstanding debt consisted of the following amounts:

	September 30,	December 31,
	2023	2022
(in thousands)		
Current portion of long-term debt	\$ —	\$ —
Non-current portion of long-term debt	80,622	77,132
Total long-term debt	80,622	77,132
Unamortized debt issuance cost	(1,148)	(913)
Outstanding balance	\$ 79,474	\$ 76,219

The outstanding debt was solely comprised of loans from related parties with effective interest rates of 1.32% to 11.56% and a maturity date of October 31, 2026.

On May 9, 2023, BlackSky and its subsidiaries entered into an Amendment to its Amended and Restated Loan and Security Agreement with Intelsat and Seahawk, dated October 31, 2019 and previously amended on September 9, 2021. The Amendment amends the secured loan facility to, among other things: (i) extend the maturity date of the loan from October 31, 2024 to October 31, 2026, (ii) roll the cash interest payment due on May 1, 2023 into the outstanding principal to be paid on the maturity date, (iii) increase the interest rate on the loan as of the Amendment date from 9% to 12%, of which (x) 9.6% will be paid in kind as principal due on the maturity date, with the remainder paid as cash interest on a semi-annual basis, until May 1, 2025 and (y) after May 1, 2025, up to 4% can be paid in kind as principal due on the maturity date, with the remainder to be paid as cash interest on a semi-annual basis, and (iv) add certain financial covenants. This facility is secured by substantially all of the Company's assets, is guaranteed by the Company's subsidiaries, and contains customary covenants and events of default. The Amendment was accounted for as a debt modification and related transaction costs of \$1.3 million were recorded during the nine months ended September 30, 2023.

Fair Value of Debt

The estimated fair value of the Company's outstanding long-term debt was \$78.7 million and \$73.2 million as of September 30, 2023 and December 31, 2022, respectively, which is different than the historical costs of such long-term debt as reflected in the Company's unaudited condensed consolidated balance sheets. The fair value of the long-term debt was estimated using Level 3 inputs, based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements and credit rating.

Compliance with Debt Covenants

As part of the Amendment, the Company is required to maintain a minimum cash and cash equivalents balance of not less than \$0.0 million, measured quarterly as of the last day of each fiscal quarter. In addition, the Company is required to maintain Adjusted EBITDA, measured quarterly as of the last day of each fiscal quarter, of not less than:

- \$5.0 million for the trailing four quarter period ending as of December 31, 2024 through September 30, 2025 and
- \$10.0 million for the trailing four quarter period ending as of December 31, 2025 and as of the end of each fiscal quarter thereafter.

The section entitled "Non-GAAP Financial Measures" has additional information on the Company's definition of Adjusted EBITDA. As of September 30, 2023, all debt instruments contain customary covenants and events of default. The Company was in compliance with all covenants as of September 30, 2023.

10. Equity Warrants Classified as Derivative Liabilities

Warrant Issuances

In March 2023, the Company completed the closing of a private placement whereby the Company issued warrants to purchase up to 16.4 million shares of Class A common stock.

The purchase price of each share and associated warrant was \$1.79. Including the issuance of Company's Class A common stock (see Note 12), the aggregate gross proceeds to the Company from the private placement were \$29.4 million, before deducting the placement agent fees and other offering expenses payable by the Company. The Company uses the net proceeds from the private placement for general corporate purposes, including working capital.

The warrants have an exercise price of \$2.20 per share of Class A common stock, and are exercisable until September 8, 2028. The March 2023 private placement warrants provide that a holder of warrants will not have the right to exercise any portion of its warrants if such holder, together with its affiliates, would beneficially own in excess of 4.99% of the number of shares of common stock outstanding immediately after giving effect to such exercise; provided, however, that each holder may increase or decrease the beneficial ownership limitation by giving notice to the Company; but not to any percentage in excess of 9.99%.

The Company incurred transaction costs which consisted of legal fees, accounting fees, placement agent fees, and other third-party costs directly related to the March 2023 private placement. The transaction costs of \$0.9 million related to the 2023 private placement warrants were included in other income (expense), net in the unaudited condensed consolidated statements of operations and comprehensive income (loss) for the nine months ended September 30, 2023.

The Company also has approximately 24.1 million additional outstanding warrants, including 15.8 million public warrants and 8.3 million private placement warrants, issued by Osprey, the Company's predecessor company, in 2019 in connection with its initial public offering as a special purpose acquisition company. The 2019 warrants are each exercisable for one share of the Company's Class A common stock.

Warrant Valuation

Equity warrants that are classified as derivative liabilities must be measured at fair value upon issuance and re-valued at the end of each reporting period through expiration and are included in derivative liabilities in the Company's unaudited condensed consolidated balance sheets. Any change in fair value between the respective reporting dates is recognized as an unrealized gain or loss in the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss) (see Note 16). The Company's derivative liabilities were made up of only equity warrants and the Sponsor Shares as of September 30, 2023 and December 31, 2022.

The following table is a summary of the number of shares of the Company's Class A common stock issuable upon exercise of warrants at September 30, 2023:

	Number of Shares	Exercise Price	Redemption Price	Expiration Date	Classification	Gain in Value for the Nine Months Ended September 30,	Fair Value as of September 30, 2023
	(in thousands)					(in thousands)	
Public Warrants	15,813	\$ 11.50	\$ 18.00	9/9/2026	Liability	\$ 848	\$ 1,249
Private Placement Warrants - Issued October 2019	4,163	11.50	18.00	9/9/2026	Liability	208	666
Private Placement Warrants - Issued October 2019	4,163	20.00	18.00	9/9/2026	Liability	83	375
Private Placement Warrants - Issued March 2023	16,404	2.20	N/A	9/8/2028	Liability	6,069	11,647

In addition, the Company has 1.8 million Class A common stock warrants outstanding which have an exercise price of \$0.11 and expiration dates from June 27, 2028 to October 31, 2029. These warrants are equity classified and are included in additional paid-in capital in the Company's unaudited condensed consolidated balance sheets.

11. Other Income (Expense)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Transaction costs associated with debt and equity financings	\$ —	\$ —	\$ (1,738)	\$ —
Other	2	(14)	(70)	(54)
	<u>\$ 2</u>	<u>\$ (14)</u>	<u>\$ (1,808)</u>	<u>\$ (54)</u>

12. Stockholders' Equity

In March 2023, the Company completed a private placement of 16.4 million shares of the Company's Class A common stock and an equal number of corresponding warrants, for a purchase price of \$1.79 per share and associated warrant. The Company received \$29.4 million in gross proceeds from the private placement. The Company sold 1.8 million common shares in its ATM offering during the nine months ended September 30, 2023, at an average purchase price per share of \$.59, resulting in gross proceeds of \$2.9 million. The transaction costs for these equity issuances consisted of legal fees, accounting fees, placement agent fees, and other third-party costs related directly to the equity issuances. During the nine months ended September 30, 2023, \$1.6 million of transaction costs that had been incurred were recorded as a reduction to additional paid-in capital in the unaudited condensed consolidated statements of changes in stockholders' equity and unaudited condensed consolidated balance sheets, and as a reduction to the proceeds from the transaction in the unaudited condensed consolidated statements of cash flows.

13. Net Income (Loss) Per Share of Class A Common Stock

The following table includes the calculation of basic and diluted net (loss) income per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands except per share information)			
Income (loss) from continuing operations	\$ 675	\$ (13,800)	\$ (50,071)	\$ (60,074)
Income (loss) from discontinued operations	—	707	—	707
Net income (loss) available to common stockholders	\$ 675	\$ (13,093)	\$ (50,071)	\$ (59,367)
Basic and diluted net income (loss) per share - continuing operations	\$ 0.00	\$ (0.12)	\$ (0.38)	\$ (0.51)
Basic and diluted net income (loss) per share - discontinued operations	—	0.01	—	0.01
Basic and diluted net income (loss) per share	\$ 0.00	\$ (0.11)	\$ (0.38)	\$ (0.50)
Shares used in the computation of basic and diluted net income (loss) per share	138,881	118,582	133,465	117,403

The potentially dilutive securities listed below were not included in the calculation of diluted weighted average common shares outstanding, as their effect would have been anti-dilutive during the nine months ended September 30, 2023 and three and nine months ended September 30, 2022.

	Three and Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Restricted Class A common stock	31	79
Class A common stock warrants	1,770	1,770
Stock options	9,146	8,083
Restricted stock units	18,202	8,268
Public Warrants (exercisable for Class A common stock) treated as liability	15,813	15,813
Private Placement Warrants (exercisable for Class A common stock) treated as liability	24,729	8,325
Sponsor Shares	2,372	2,372

14. Stock-Based Compensation

The stock-based compensation expense attributable to continuing operations is included in the unaudited condensed consolidated statements of operations and comprehensive income (loss) as indicated in the table below. Effective January 1, 2022, the Company reorganized its captions in the unaudited condensed consolidated statements of operations and comprehensive income (loss) to better align the Company's broad

portfolio. As a result, for the three and nine months ended September 30, 2022, the amounts presented to reflect the impact of the reorganization have been recasted.

	Three Months Ended		Nine Months Ended September 30,	
	September 30,		2023	
	2023	2022	2023	2022
	(in thousands)			
Imagery & software analytical service costs, excluding depreciation and amortization	\$ 40	\$ 88	\$ 185	\$ 447
Professional & engineering service costs, excluding depreciation and amortization	97	208	391	1,119
Selling, general and administrative	2,265	2,867	7,149	14,823
Total stock-based compensation expense	<u>\$ 2,402</u>	<u>\$ 3,163</u>	<u>\$ 7,725</u>	<u>\$ 16,389</u>

The Company recorded stock-based compensation related to capitalized internal labor for software development activities of \$0.2 million and \$0.3 million during the three months ended September 30, 2023 and 2022, respectively and \$0.5 million and \$1.3 million during the nine months ended September 30, 2023 and 2022, respectively. These amounts are included in property, plant, and equipment - net in the unaudited condensed consolidated balance sheets.

15. Related Party Transactions

A summary of the Company's related party transactions during the nine months ended September 30, 2023 is presented below:

Name	Nature of Relationship	Description of the Transactions	Amount Due to Related Party as of	
			September 30, 2023	December 31, 2022
			(in thousands)	
Seahawk	Debt Issuer and subsidiary of Thales Alenia Space	In 2019, the Company raised and converted \$8.4 million from prior debt into new, outstanding debt and issued 13.5 million warrants to purchase Legacy BlackSky common stock.	\$ 21,727	\$ 20,787
Intelsat	Debt Issuer	In 2019, the Company entered into a term loan facility for \$0.0 million and issued 20.2 million warrants to purchase Legacy BlackSky common stock.	58,895	56,345

Name	Nature of Relationship	Description of the Transactions	Total Payments in the Nine Months Ended		Amount Due to (Due from) Related Party as of	
			September 30,		September 30,	December 31,
			2023	2022	2023	2022
(in thousands)						
LeoStella	Joint Venture with Thales Alenia Space	The Company owns 50% of LeoStella, its joint venture with Thales. The Company contracts with LeoStella for the design, development and manufacture of satellites to operate its business.	\$ 14,731	\$ 22,067	\$ (1,146)	\$ 3,728
X-Bow	Equity Method Investee	In 2017, the Company received stock in X-Bow. As of September 30, 2023, the Company had a less than 20% investment in X-Bow and had one Board seat. The Company has engaged X-Bow to develop a rocket for the Company.	—	—	—	—
Ursa Space Systems	Strategic Partner	The chairman of the Company's board of directors, Will Porteous, is also an investor and member of the board of directors of Ursa Space Systems. The Company has a non-cancelable operational commitment with Ursa Space Systems.	333	417	42	—
Thales Alenia Space	Shareholder and Parent of Wholly-owned Subsidiary, Seahawk (Debt Issuer)	Design, development and manufacture of telescopes.	4,459	8,170	—	693

On May 9, 2023, BlackSky and its subsidiaries entered into an Amendment to its Amended and Restated Loan and Security Agreement with Intelsat and Seahawk, dated October 31, 2019 and previously amended on September 9, 2021. The Company incurred \$0.4 million of offering costs to related parties in relation to the Amendment. See Note 9 for information regarding the Amendment.

Interest on the term loan facility is accrued and is due semi-annually. No significant interest payments were made in the nine months ended September 30, 2023 or 2022. As of September 30, 2023, the Company had interest due to related parties of \$4.1 million, of which \$0.8 million was included in other current liabilities and \$3.3 million was included in other liabilities. As of December 31, 2022, the Company had interest due to related parties of \$1.2 million that was included in other current liabilities.

16. Fair Value of Financial Instruments

The following tables present information about the Company's liabilities that are measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 and indicate the fair value hierarchy level of the valuation techniques and inputs that the Company utilized to determine such fair value:

September 30, 2023	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Input (Level 2)	Significant Other Unobservable Inputs (Level 3)
(in thousands)			
Liabilities			
Public Warrants	\$ 1,249	\$ —	\$ —
Private Placement Warrants - Issued October 2019	—	—	1,041
Private Placement Warrants - Issued March 2023	—	—	11,647
Sponsor Shares	—	—	1,446
	\$ 1,249	\$ —	\$ 14,134

December 31, 2022	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Input (Level 2)	Significant Other Unobservable Inputs (Level 3)
(in thousands)			
Liabilities			
Public Warrants	\$ 2,097	\$ —	\$ —
Private Placement Warrants - Issued October 2019	—	—	1,332
Sponsor Shares	—	—	1,684
	\$ 2,097	\$ —	\$ 3,016

The carrying values of the following financial instruments approximated their fair values as of September 30, 2023 and December 31, 2022 based on their maturities: cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued liabilities, and other current liabilities.

There were no transfers into or out of any of the levels of the fair value hierarchy during the nine months ended September 30, 2023 or 2022.

Changes in the fair value of the Level 3 liabilities during the nine months ended September 30, 2022 of \$4.8 million included the Sponsor Shares and the October 2019 private placement warrants. The following is a summary of changes in the fair value of the Level 3 liabilities during the nine months ended September 30, 2023:

	Sponsor Shares	Private Placement Warrants - Issued October 2019	Private Placement Warrants - Issued March 2023
(in thousands)			
Balance as of January 1, 2023	\$ 1,684	\$ 1,332	\$ —
Liability recorded at fair value	—	—	17,716
Gain from changes in fair value	(238)	(291)	(6,069)
Balance as of September 30, 2023	\$ 1,446	\$ 1,041	\$ 11,647

17. Commitments and Contingencies

Legal Proceedings

From time to time, the Company may become involved in various claims and legal proceedings arising in the ordinary course of business, which, by their nature, are inherently unpredictable. The Company is not currently a party to any material claims or legal proceedings the outcome of which, if determined adversely to the Company, would individually or in the aggregate, have a material adverse effect on the Company's business, financial condition or results of operations. Regardless of outcome, litigation and other legal proceedings can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

Other Commitments

In August 2023, the Company entered into a non-refundable commitment for multi-launch and integration services.

In November 2023, the Company entered into a commercial agreement with financing terms for multiple launches providing for \$0 million to be paid upfront, and for \$27.0 million, of which a portion will be drawn down equally per launch and will be repaid quarterly on a pro-rata basis across a 3 year period after each successful launch milestone. Payments will accrue interest at 12.6% per annum. The Company may prepay at any time until the maturity date without premium or penalty. As of November 8, 2023, the minimum commitment associated with the agreement is \$8.4 million.

Under certain circumstances, a default interest rate will apply on all outstanding and payable obligations during the existence of an event of default under the Loan Agreement at 18.9% per annum above the applicable interest rate.

18. Concentrations, Risks, and Uncertainties

For the three months ended September 30, 2023 and 2022, revenue from customers representing 10% or more of the consolidated revenue from continuing operations was \$16.0 million and \$10.7 million, respectively, and \$37.2 million and \$23.9 million, respectively, for the nine months ended September 30, 2023 and 2022. Accounts receivable related to these customers as of September 30, 2023 and December 31, 2022 was \$0.3 million and \$0, respectively.

Revenue from the U.S. federal government and agencies was \$14.0 million and \$14.9 million for the three months ended September 30, 2023 and 2022, respectively, and \$41.8 million and \$38.1 million, respectively, for the nine months ended September 30, 2023 and 2022. Accounts receivable related to U.S. federal government and agencies was \$2.0 million and \$2.5 million as of September 30, 2023 and December 31, 2022, respectively.

The Company generally extends credit on account, without collateral. Outstanding accounts receivable balances are evaluated by management, and accounts are reserved when it is determined collection is not probable. As of September 30, 2023 and 2022, the Company evaluated the realizability of the aged accounts receivable, giving consideration to each customer's financial history and liquidity position, credit rating and the facts and circumstances of collectability on each outstanding account, and did not have a significant reserve for uncollectible accounts.

19. Subsequent Events

The Company evaluated subsequent events through November 8, 2023 and determined that there have been no events that have occurred that would require additional disclosures or adjustments to the consolidated financial statements, other than those previously disclosed in Note 1 and Note 17 above.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. As discussed in the section titled "Special Note Regarding Forward Looking Statements," the following discussion and analysis contains forward looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed in the section titled "Risk Factors" under Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on March 23, 2023. Unless the context otherwise requires, references in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to "BlackSky", "the Company", "we", "us" and "our" refer to the business and operations of BlackSky Technology Inc. and its consolidated subsidiaries and BlackSky Holdings, Inc. ("Legacy BlackSky") and its consolidated subsidiaries prior to the completion of its merger on September 9, 2021 with a wholly owned subsidiary of Osprey Technology Acquisition Corp (the "Merger").

Company Overview

We own and operate one of the industry's leading high-performance low earth orbit ("LEO") small satellite constellations. Our constellation is optimized to cost-efficiently capture imagery at high revisit rates where and when our customers need it. The orbital configuration of our constellation is designed to collect data on the most critical and strategic locations in the world. Our constellation is able to image certain locations approximately every 60 minutes, from dawn to dusk, providing our customers with insights and situational awareness throughout the day. Our satellites are designed with agile pointing capabilities that enable our customers to task our constellation on demand to collect specific locations of interest. Our tasking methodology employs proprietary artificial intelligence ("AI")-enabled software to efficiently collect images of the most important strategic and economic assets and areas of interest to our customers. We believe that our focus on critical strategies and economic infrastructure and the AI-enabled tasking of our constellation differentiates us from many of our competitors, who are primarily dedicated to mapping the entirety of the Earth on a routine basis. Our differentiated approach to space enables us to deliver highly targeted and valuable intelligence with a smaller constellation fleet that has the added benefit of greater operating and capital efficiencies.

Our Blacksky Spectra software platform can, among other things, process millions of observations a day from our proprietary satellite constellation and from multiple external data sources including imaging, radar and radio frequency satellites, environmental sensors, asset tracking sensors, Internet-of-Things ("IoT") connected devices, internet-enabled narrative sources, and a variety of geotemporal data feeds. Blacksky Spectra employs advanced, proprietary AI and machine learning ("ML") techniques to process, analyze, and transform these data feeds into alerts, information, and insights that our customers receive, all fully automated. Customers can access Blacksky Spectra's data and analytics through easy-to-use web services or through platform application programming interfaces.

Our next generation satellites ("Gen-3"), expected to launch in 2024, are designed to improve imaging resolution even further and include short wave infrared imaging technology for a broad set of imaging conditions, including nighttime and low-light. We believe these advancements will expand the relevance and certainty of our analytics to continue to ensure our importance to our customers. We also believe the combination of our high-revisit, small satellite constellation, our Blacksky Spectra platform, and low constellation cost is transforming the market for geospatial imagery and space-based data and analytics.

Our operating strategy is to continue to enhance the capabilities of our satellite constellation, to increase the number of third-party data sources processed by our Blacksky Spectra platform, and to expand our analytics offerings in order to increase the value we deliver to our customers. Our two strategic assets—our satellite constellation and our Blacksky Spectra platform—are mutually reinforcing: as we capture more information about the world's most important strategic and economic assets and locations, our proprietary database expands and increases its utility; enabling us to better detect, understand, and predict changes that matter most to our customers.

Our business has a natural and powerful “flywheel” effect: the more data we collect and analyze, the more valuable the insights we can deliver to our customers.

Our current customer base and end market mix are weighted towards U.S. and international defense and intelligence customers and markets. We believe there are significant opportunities to expand our imagery and software analytical services, as well as our professional and engineering service offerings, to a broad set of customers both domestically and internationally. In addition, our services and products can benefit customers in a variety of commercial markets including, but not limited to, energy and utilities, insurance, commodities, mining, manufacturing, logistics, supply chain management, agriculture, environmental monitoring, disaster and risk management, engineering and construction, and retail and consumer behavior.

We offer a variety of pricing and utilization options for our imagery and software analytical service offerings, with the majority of our agreements structured as subscription contracts, followed by usage-based pricing and transactional licenses. These options provide customers flexibility to utilize our imagery and software analytical services in a manner that best suits their business needs. We offer a range of pricing tiers that enables the customer to manage collection priorities, when during critical events they can pay a premium to prioritize their monitoring and collection requirements. At other times, customers can select lower priority collections to allow for more economical utilization. We currently derive revenue from variable and fixed price plans that allow our customers to choose what matters most to them—platform licensing-levels, priority for imagery tasking, and whether to apply analytics or monitoring capabilities overtop the imaging service.

Components of Operating Results

Revenue

Our revenue is generated by selling imagery and software analytics services through our Blacksky Spectra platform and by providing professional and engineering services to strategic customers on a project basis.

- **Imagery and Software Analytical Services Revenue**

- **Imagery:** We offer our customers high-revisit, on-demand high resolution electro optical satellite imaging services. Through our BlackSky Spectra software platform, customers can directly task our proprietary satellite constellation to collect and deliver imagery over specific locations, sites, and regions that are critical to their operations. We offer customers several service level options that include basic plans for on-demand tasking or multi-year assured access programs, where customers can secure priority access and imaging capacity at a premium over a region of interest on a take or pay basis.
- **Data, Software, and Analytics:** Our analytics services are also offered on a subscription or consumption basis and provide customers with access to our site monitoring, event monitoring and global data services. We leverage our proprietary AI and ML algorithms to analyze data coming from both our proprietary sensor network and third-party space sources in real-time to provide data, insights, and analytics for our customers. We provide services related to object, change and anomaly detection, site monitoring, and enhanced analytics through which we can detect key pattern of life changes in critical locations. These critical locations can include strategic locations and infrastructure such as ports, airports, and construction sites; retail activity; commodities stockpiles; and other sites that contain critical commodities and supply chain inventory.

We expect continued imagery and software analytical services revenue growth in the year ending December 31, 2023 and beyond, as compared to each prior year, as a result of increases in our sales orders driven by stronger customer demand.

- **Professional and Engineering Services Revenue**—We develop and deliver advanced satellites and payload systems for specific strategic customers that desire to leverage our capabilities in mission systems engineering and operations, ground station operations, software, analytics and systems development. These systems are sold to government customers under fixed price contracts and are often bundled with our imagery services offerings. In certain cases, we retain rights to intellectual property for developed technology of certain systems, and this paid effort offsets some of our product development effort.

We also provide technology enabled professional service solutions to support customer-specific feature request and to support the integration, testing, and training of our imagery and software analytical services into the customer's organizational processes and workflows. We also provide software systems engineering development services to support the integration of high volume and mass quantities of data in their operating platforms.

We expect continued meaningful contribution from our professional and engineering services revenue. The expected increase in revenue will be primarily from commencing contracts with existing U.S. and international defense and intelligence customers for whom we need to perform development work prior to the implementation of their subscription service contracts.

Costs and Expenses

Our costs and expenses are incurred from the following categories:

- Imagery and software analytical services costs primarily include internal aerospace and geospatial software development labor, third-party data and imagery, internal labor to support the ground stations and space operations, and cloud computing and hosting services. Costs are expensed as incurred except for incremental costs to obtain a contract, primarily sales commissions on contracts greater than one year, which are capitalized and amortized to selling, general, and administrative expenses on a systematic basis consistent with the transfer of goods and services and directly identifiable costs to fulfill a contract. Expense related to stock-based payments is classified in the unaudited condensed consolidated statements of operations and comprehensive income (loss) based upon the classification of each employees' cash compensation. We recognize stock-based compensation expense for those employees whose work supports the imagery and software analytical service costs we provide to customers, under imagery and software analytical service costs, excluding depreciation and amortization.
- Professional and engineering service costs primarily include the cost of internal labor for design and engineering in support of long-term development contracts for satellites and payload systems as well as subcontract direct materials and external labor costs to build and test specific components, such as the communications system, payload demands, and sensor integration. In addition, we also recognize internal labor costs and external subcontract labor costs for our customer-centric software service solutions. We recognize stock-based compensation expense for those employees who provide professional and engineering services support to customers, under professional and engineering service costs, excluding depreciation and amortization.

Operating Expenses

Our operating expenses are incurred from the following categories:

- Selling, general, and administrative expense consists of salaries and benefit costs, development costs, professional fees, and other expenses which includes other personnel-related costs, stock-based compensation expenses for those employees who generally support our business and operations, and occupancy costs. Our development costs include internal labor costs to design and plan critical real-time software and geospatial analytic solutions and solution enhancements, including mapping, analysis, site target monitoring, and news feeds.
- Research and development expense consists of employees' salaries, taxes, and benefits costs incurred for data science modeling and algorithm development related to our Blacksky Spectra software platform, and for the strategic development efforts to support our long-term strategy. In addition, we employ and classify third-party vendors who fulfill our strategic projects as research and development expense. We intend to continue to invest appropriate resources in research and development efforts, as we believe that investment is critical to maintaining our competitive position.
- Depreciation expense is related to property and equipment which mainly consists of operational satellites. Amortization expense is related to intangible assets which mainly consist of customer relationships.

Results of Operations for the Three and Nine Months Ended September 30, 2023 and 2022

Effective January 1, 2022, we reorganized our captions in the unaudited condensed consolidated statements of operations and comprehensive income (loss) to better align the Company's broad portfolio. As a result, for the three and nine months ended September 30, 2022, the amounts presented to reflect the impact of the reorganization have been recasted. Period to period comparisons are not necessarily indicative of future results. The following table provides the components of results of operations for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
(dollars in thousands)								
Revenue								
Imagery & software analytical services	\$ 15,264	\$ 13,707	\$ 1,557	11.4 %	\$ 46,352	\$ 31,249	\$ 15,103	48.3 %
Professional & engineering services	5,996	3,228	2,768	85.7 %	12,632	14,684	(2,052)	(14.0)%
Total revenue	21,260	16,935	4,325	25.5 %	58,984	45,933	13,051	28.4 %
Costs and expenses								
Imagery & software analytical service costs, excluding depreciation and amortization	3,479	3,513	(34)	(1.0)%	10,634	10,537	97	0.9 %
Professional & engineering service costs, excluding depreciation and amortization	3,288	4,274	(986)	(23.1)%	11,137	17,991	(6,854)	(38.1)%
Selling, general and administrative	17,572	18,758	(1,186)	(6.3)%	55,289	59,041	(3,752)	(6.4)%
Research and development	133	197	(64)	(32.5)%	525	449	76	16.9 %
Depreciation and amortization	11,304	9,598	1,706	17.8 %	32,735	26,166	6,569	25.1 %
Operating loss	(14,516)	(19,405)	4,889	25.2 %	(51,336)	(68,251)	16,915	24.8 %
Gain on derivatives	17,012	7,135	9,877	138.4 %	7,445	10,629	(3,184)	(30.0)%
Income (loss) on equity method investment	328	(776)	1,104	142.3 %	913	694	219	31.6 %
Interest income	519	486	33	6.8 %	1,602	664	938	141.3 %
Interest expense	(2,532)	(1,226)	(1,306)	(106.5)%	(6,627)	(3,756)	(2,871)	(76.4)%
Other income (expense), net	2	(14)	16	114.3 %	(1,808)	(54)	(1,754)	NM
Income (loss) before income taxes	813	(13,800)	14,613	105.9 %	(49,811)	(60,074)	10,263	17.1 %
Income tax expense	(138)	—	(138)	(100.0)%	(260)	—	(260)	(100.0)%
Income (loss) from continuing operations	675	(13,800)	14,475	104.9 %	(50,071)	(60,074)	10,003	16.7 %
Discontinued operations:								
Gain from discontinued operations	—	707	(707)	(100.0)%	—	707	(707)	(100.0)%
Income tax (expense) benefit	—	—	—	— %	—	—	—	— %
Gain from discontinued operations, net of income taxes	—	707	(707)	(100.0)%	—	707	(707)	(100.0)%
Net income (loss)	\$ 675	\$ (13,093)	\$ 13,768	105.2 %	\$ (50,071)	\$ (59,367)	\$ 9,296	15.7 %

• NM - Fluctuation in terms of percentage change is not meaningful.

Revenue

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
(dollars in thousands)								
Imagery & software analytical revenue	\$ 15,264	\$ 13,707	\$ 1,557	11.4 %	\$ 46,352	\$ 31,249	\$ 15,103	48.3 %
% of total revenue	71.8 %	80.9 %			78.6 %	68.0 %		
Professional & engineering services revenue	5,996	3,228	2,768	85.7 %	12,632	14,684	(2,052)	(14.0)%
% of total revenue	28.2 %	19.1 %			21.4 %	32.0 %		
Total revenue	\$ 21,260	\$ 16,935	\$ 4,325	25.5 %	\$ 58,984	\$ 45,933	\$ 13,051	28.4 %

Imagery and Software Analytical Services Revenue

Imagery and software analytical services revenue increased for the three and nine months ended September 30, 2023, as compared to the same periods in 2022, driven by increased imagery and analytics orders from existing customers and several firm-fixed price subscription contracts with new domestic and international customers.

Professional and Engineering Services Revenue

Professional and engineering services revenue increased for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, due to new contracts we were awarded in the first half of 2023. Professional and engineering services revenue decreased for the nine months ended September 30, 2023, as compared to the same period in 2022, primarily due to a lower quarterly percentage of completion achieved in two engineering services contracts as a result of an increase in the program's maturity year-over-year, partially offset by an increase in professional services revenue generated from new contracts awarded in the first half of 2023.

Costs and Expenses

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
(dollars in thousands)								
Imagery & software analytical service costs, excluding depreciation and amortization	\$ 3,479	\$ 3,513	\$ (34)	(1.0)%	\$ 10,634	\$ 10,537	\$ 97	0.9 %
Professional & engineering service costs, excluding depreciation and amortization	3,288	4,274	(986)	(23.1)%	11,137	17,991	(6,854)	(38.1)%
Total costs	\$ 6,767	\$ 7,787	\$ (1,020)	(13.1)%	\$ 21,771	\$ 28,528	\$ (6,757)	(23.7)%

Imagery and Software Analytical Service Costs

Imagery & software analytical service costs, excluding depreciation and amortization were relatively flat for the three and nine months ended September 30, 2023, as compared to the same periods in 2022.

Professional and Engineering Service Costs

Professional & engineering service costs, excluding depreciation and amortization, decreased for the three and nine months ended September 30, 2023 as compared to the same periods in 2022, primarily due to fewer costs incurred on two engineering services contracts, driven by an increase in the programs' maturity year-over-year. This was partially offset by \$0.3 million and \$3.6 million of unfavorable changes in our estimate to complete on two engineering services contracts during the three and nine months ended September 30, 2023, respectively, as compared to the prior year. The estimation of total costs to complete on long-term projects is subject to many variables and requires judgment and we may have future changes in estimates, which may have an impact on professional and engineering service costs and associated revenues.

Selling, General, and Administrative

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
(dollars in thousands)								
Stock-based compensation expense	\$ 2,265	\$ 2,867	\$ (602)	(21.0)%	\$ 7,149	\$ 14,823	\$ (7,674)	(51.8)%
Salaries and benefit costs	10,368	8,933	1,435	16.1 %	31,247	25,539	5,708	22.4 %
Development costs	190	371	(181)	(48.8)%	787	624	163	26.1 %
Professional fees	800	1,317	(517)	(39.3)%	2,820	3,836	(1,016)	(26.5)%
Information technology and other administrative expenses	2,127	1,904	223	11.7 %	6,712	4,519	2,193	48.5 %
Selling and marketing	877	1,510	(633)	(41.9)%	2,890	4,129	(1,239)	(30.0)%
Rent expense	354	722	(368)	(51.0)%	1,424	1,954	(530)	(27.1)%
Insurance	590	1,134	(544)	(48.0)%	2,260	3,617	(1,357)	(37.5)%
Selling, general and administrative	<u>\$ 17,571</u>	<u>\$ 18,758</u>	<u>\$ (1,187)</u>	<u>(6.3)%</u>	<u>\$ 55,289</u>	<u>\$ 59,041</u>	<u>\$ (3,752)</u>	<u>(6.4)%</u>

Selling, general, and administrative expenses decreased during the three and nine months ended September 30, 2023, as compared to the same periods in 2022. For the three and nine months ended September 30, 2023 as compared to the same periods in 2022, stock-based compensation expense decreased \$0.6 million and \$7.7 million, respectively, related to the vesting of a significant number of restricted stock units ("RSUs") in 2022. Salaries and payroll-related benefits increased due to expansion of the sales team and investment in AI capabilities.

The following is our forecast for total RSU expense as of September 30, 2023, which, in addition to the amounts recognized in selling, general, and administrative expenses, includes the portion that will be capitalized or classified in imagery and software analytical service costs and professional and engineering service costs:

	(in thousands)
For the remainder of 2023	\$ 2,827
For the years ending December 31,	
2024	9,076
2025	7,473
2026	5,173
2027	1,762
	<u>\$ 26,311</u>

Research and Development

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
	(dollars in thousands)							
Research and development	\$ 133	\$ 197	\$ (64)	(32.5)%	\$ 525	\$ 449	\$ 76	16.9 %

Research and development expense decreased for the three months ended September 30, 2023 and increased for the nine months ended September 30, 2023 as compared to the same periods in 2022. The changes were driven by the timing of contracts with third-party vendors who fulfill our strategic projects as research and development expense.

Depreciation and Amortization

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
	(dollars in thousands)							
Depreciation of satellites	\$ 9,598	\$ 8,811	\$ 787	8.9 %	\$ 28,413	\$ 24,579	\$ 3,834	15.6 %
Depreciation of all other property and equipment	1,566	647	919	142.0 %	3,901	1,166	2,735	234.6 %
Amortization	140	140	—	—%	421	421	—	—%
Depreciation and amortization	<u>\$ 11,304</u>	<u>\$ 9,598</u>	<u>\$ 1,706</u>	17.8 %	<u>\$ 32,735</u>	<u>\$ 26,166</u>	<u>\$ 6,569</u>	25.1 %

Depreciation expense from satellites increased for the three and nine months ended September 30, 2023 as compared to the same periods in 2022, driven by an increase in the number of satellites in service.

Depreciation expense from all other property and equipment increased for the three and nine months ended September 30, 2023 as compared to the same periods in 2022, primarily driven by capitalization of software and additional site equipment that was placed into service.

Amortization expense remained flat for the three and nine months ended September 30, 2023 as compared to the same periods in 2022.

Gain from discontinued operations, net of income taxes

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
	(dollars in thousands)							
Gain from discontinued operations, net of income taxes	\$ —	\$ 707	\$ (707)	(100.0)%	\$ —	\$ 707	\$ (707)	(100.0)%

On June 12, 2020, we completed the sale of 100% of our interests in Spaceflight, Inc. to M&Y Space Co., Ltd for a final purchase price of \$31.6 million. During the three and nine months ended September 30, 2022, the Company received an indemnification claim notice regarding certain collection and tax payments related to the Share Purchase Agreement among BlackSky Holdings, Inc., Spaceflight, Inc., and M&Y Space Co., Ltd. The parties

agreed to the framework for a global settlement of such indemnification claims, to include a settlement payment by the Company of \$1.0 million and a holdback amount of \$0.1 million subject to M&Y Space Co.'s ability to collect against certain receivables. As a result, we reduced our existing contingent liability by \$0.7 million.

Non-Operating Expenses

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022			2023	2022		
	(dollars in thousands)							
Gain on derivatives	\$ 17,012	\$ 7,135	\$ 9,877	138.4 %	7,445	10,629	(3,184)	(30.0)%
Income (loss) on equity method investment	328	(776)	1,104	142.3 %	913	694	219	31.6 %
Interest income	519	486	33	6.8 %	1,602	664	938	141.3 %
Interest expense	(2,532)	(1,226)	(1,306)	(106.5)%	(6,627)	(3,756)	(2,871)	(76.4)%
Other income (expense), net	2	(14)	16	114.3 %	(1,808)	(54)	(1,754)	NM

• NM - Fluctuation in terms of percentage change is not meaningful.

Gain on derivatives

Fluctuations in our equity warrants and other equity instruments that we classify as derivative liabilities in the unaudited condensed consolidated balance sheets and measure at fair value are significantly driven by our common stock price. Fluctuations to these instruments are inversely related to changes in our common stock price and the gains or losses recognized in the period are non-cash fair value adjustments. These instruments generated gains during the three and nine months ended September 30, 2023 and 2022.

Income (loss) on equity method investment

The fluctuations in earnings from our equity method investment is directly related to the operating performance of our joint venture LeoStella.

Interest income

Interest income increased during the three and nine months ended September 30, 2023 as a result of our short-term investments purchased in the second quarter of 2022 as well as an increase in the effective interest rate received for our investments.

Interest expense

Interest expense increased during the three and nine months ended September 30, 2023 as a result of a higher effective interest rate on our loans from related parties.

Other income (expense), net

For the nine months ended September 30, 2023, other income (expense), net, included \$0.9 million of transaction costs associated with new warrants that are accounted for as derivative liabilities and \$0.8 million of transaction costs associated with our debt modification during the second quarter of 2023.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, management utilizes certain non-GAAP performance measures, such as Adjusted EBITDA for purposes of evaluating our ongoing operations and for internal planning and forecasting purposes. Our management and board of directors believe that this non-GAAP operating measure, when reviewed collectively with our GAAP financial information, provides useful supplemental information to investors in assessing our operating performance.

Adjusted EBITDA

Adjusted EBITDA is defined as net income or loss attributable to us before interest income, interest expense, income tax expense or benefit, depreciation and amortization, as well as significant non-cash and/or non-recurring expenses as our management believes these items are not useful in evaluating our core operating performance. These items include, but are not limited to stock-based compensation expense, unrealized (gain) loss on certain warrants/shares classified as derivative liabilities, severance, (income) loss on equity method investment, investment loss on short-term investments, transaction costs associated with debt and equity financings, forgiveness of non-trade receivables, and gain from discontinued operations, net of income taxes. We have presented Adjusted EBITDA because it is a key measure used by our management and board of directors to understand and evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. In particular, we believe that the exclusion of certain items in calculating Adjusted EBITDA can produce a useful measure for period-to-period comparisons of our business. Accordingly, we believe that Adjusted EBITDA provides useful information in understanding and evaluating our operating results. In addition, we believe that Adjusted EBITDA provides additional information for investors to use in evaluating our ongoing operating results and trends. This non-GAAP measure provides investors with incremental information for the evaluation of our performance after isolation of certain items deemed unrelated to our core business operations.

Adjusted EBITDA is presented as a supplemental measure to our GAAP measures of performance. When evaluating Adjusted EBITDA, you should be aware that we may incur future expenses similar to those excluded when calculating this measure. In addition, our presentation of this measure should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Furthermore, our computation of Adjusted EBITDA may not be directly comparable to similarly titled measures computed by other companies, as the nature of the adjustments that other companies may include or exclude when calculating Adjusted EBITDA may differ from the adjustments reflected in our measure. Because of these limitations, Adjusted EBITDA should not be considered in isolation, nor should this measure be viewed as a substitute for the most directly comparable GAAP measure, which is net loss. We compensate for the limitations of non-GAAP measures by relying primarily on our GAAP results. You should review the reconciliation of our net loss to Adjusted EBITDA below and not rely on any single financial measure to evaluate our performance.

The table below reconciles our net income (loss) to adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended September 30,	
	September 30,		September 30,	
	2023	2022	2023	2022
	(in thousands)			
Net income (loss)	\$ 675	\$ (13,093)	\$ (50,071)	\$ (59,367)
Interest income	(519)	(486)	(1,602)	(664)
Interest expense	2,532	1,226	6,627	3,756
Income tax expense	138	—	260	—
Depreciation and amortization	11,304	9,598	32,735	26,166
Stock-based compensation expense	2,402	3,163	7,725	16,389
Gain on derivatives	(17,012)	(7,135)	(7,445)	(10,629)
Gain from discontinued operations, net of income taxes	—	(707)	—	(707)
(Income) loss on equity method investment	(328)	776	(913)	(694)
Forgiveness of non-trade receivables	—	31	—	106
Transaction costs associated with debt and equity financings	—	—	1,738	—
Severance	363	56	562	761
Investment loss on short-term investments	—	—	55	—
Adjusted EBITDA	<u>\$ (445)</u>	<u>\$ (6,571)</u>	<u>\$ (10,329)</u>	<u>\$ (24,883)</u>

Liquidity and Capital Resources

As of September 30, 2023, our existing sources of liquidity included cash and cash equivalents and short-term investments. Our cash and cash equivalents excluding restricted cash totaled \$32.1 million and \$34.2 million as of September 30, 2023 and December 31, 2022, respectively, and our short-term investments totaled \$17.5 million and \$38.0 million as of September 30, 2023 and December 31, 2022, respectively. We have incurred losses and generated negative cash flows from operations since our inception in September 2014. As of September 30, 2023, we had an accumulated deficit of \$595.2 million.

Our short-term liquidity as of September 30, 2023 was comprised of the following:

	(in thousands)	
Cash and cash equivalents	\$	32,138
Restricted cash		1,835
Short-term investments ⁽¹⁾		17,543
	\$	<u>51,516</u>

⁽¹⁾ Short-term investments are included in cash flows from investing activities in the unaudited condensed consolidated statements of cash flows.

We expect cash and cash equivalents and cash generated from operating activities to be sufficient to meet our working capital and capital expenditure needs for the foreseeable future. Our future long-term capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support solution development efforts, the expansion of sales and marketing activities, the ongoing investments in technology infrastructure, the introduction of new and enhanced solutions, and the continuing market acceptance of our solutions. From time to time, we may seek additional equity or debt financing to fund capital expenditures, strategic initiatives or investments and our ongoing operations. We do not have a line of credit or access to immediate funds. However, an additional source of liquidity is our ability to offer and sell from time to time up to \$75.0 million of newly issued shares in open trading windows at market prices through a designated broker dealer pursuant to an at-the-market ("ATM") offering. If we decide, or are required, to seek additional financing from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, financial condition and results of operations could be adversely affected.

On May 9, 2023, we entered into the Second Amendment (the "Amendment") to our Amended and Restated Loan and Security Agreement with Intelsat Jackson Holdings SA and Seahawk SPV Investment LLC, dated October 31, 2019 and previously amended on September 9, 2021.

The Amendment amends the secured loan facility to, among other things: (i) extend the maturity date of the loan from October 31, 2024 to October 31, 2026, (ii) roll the cash interest payment due on May 1, 2023 into the outstanding principal to be paid on the maturity date; (iii) increase the interest rate on the loan as of the Amendment date from 9% to 12%, of which (x) 9.6% will be paid in kind as principal due on the maturity date, with the remainder paid as cash interest on a semi-annual basis, until May 1, 2025 and (y) after May 1, 2025, up to 4% can be paid in kind as principal due on the maturity date, with the remainder to be paid as cash interest on a semi-annual basis, and (iv) add certain financial covenants. As part of our new financial covenants, we are required to maintain a minimum cash and cash equivalents balance of not less than \$10.0 million, measured quarterly as of the last day of each fiscal quarter.

In addition, we are required to maintain Adjusted EBITDA, measured quarterly as of the last day of each fiscal quarter, of not less than:

- \$5.0 million for the trailing four quarter period ending as of December 31, 2024 through September 30, 2025 and
- \$10.0 million for the trailing four quarter period ending as of December 31, 2025 and as of the end of each fiscal quarter thereafter.

Please refer to the section entitled "Non-GAAP Financial Measures" for additional information on our definition of Adjusted EBITDA.

In November 2023, the Company entered into a commercial agreement with financing terms providing for \$3.0 million to be paid upfront, and for \$27.0 million to be repaid quarterly on a pro-rata basis across a 3 year period after each successful launch milestone, with payments to accrue interest at 12.6% per annum. We may prepay at any time until the maturity date without premium or penalty. Under certain circumstances, a default interest rate will apply on all outstanding and payable obligations during the existence of an event of default under the Loan Agreement at 18.9% per annum above the applicable interest rate.

In November 2023, we sold our equity-method investment in X-Bow and expect to receive proceeds of \$9.5 million in the fourth quarter of 2023 per our executed stock sale contract.

Funding Requirements

While our expenses may continue to exceed our revenues in the near term due to investments we are making in sales, marketing and products to increase our market share, we expect this difference to decline as we progress to becoming operating cash flow positive. We expect to continue to incur capital expenditures as we procure and launch satellites to increase image collection capacity, as well as investing in our Gen-3 satellites and our BlackSky Spectra software platform to significantly expand our product capabilities in the future.

Short-Term Liquidity Requirements

As of September 30, 2023, our current assets were \$70.7 million, consisting primarily of cash and cash equivalents, restricted cash, short-term investments, trade receivables, prepaid expenses and other current assets, and contract assets.

As of September 30, 2023, our current liabilities were \$18.7 million, consisting primarily of accounts payable and accrued liabilities, contract liabilities, and other non-recurring current liabilities. Accordingly, we have sufficient cash and working capital to fund our short-term liquidity requirements.

Long-Term Liquidity Requirements

We anticipate that our most significant long-term liquidity and capital needs will relate to continued funding of operations, satellite development capital expenditures, launch capital expenditures, and ongoing investments in our Blacksky Spectra software platform and internal infrastructure that will enable us to scale the business efficiently and securely. We can manage the timing for a large part of our capital expenditures, including the design, build, and launch of our new satellites currently under development, to provide us with additional flexibility to optimize our long-term liquidity requirements. Macroeconomic conditions and credit markets could also impact the availability and, or, the cost of potential future debt or equity financing.

Cash Flow Analysis

The following table provides a summary of cash flow data for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,		\$
	2023	2022	Change
	(in thousands)		
Net cash used in operating activities	\$ (15,798)	\$ (39,431)	\$ 23,633
Net cash used in investing activities ⁽¹⁾	(14,934)	(84,123)	69,189
Net cash provided by (used in) financing activities	27,689	(4,514)	32,203
Net decrease in cash, cash equivalents, and restricted cash	(3,043)	(128,068)	125,025
Cash, cash equivalents, and restricted cash – beginning of year	37,016	168,104	(131,088)
Cash, cash equivalents, and restricted cash – end of period ⁽²⁾	\$ 33,973	\$ 40,036	\$ (6,063)

⁽¹⁾ Includes the purchases of \$29.2 million of short-term investments not categorized as cash, cash equivalents, or restricted cash

⁽²⁾ \$17.5 million of short-term investments are not classified as cash, cash equivalents, or restricted cash. Our short-term liquidity at September 30, 2023 was \$51.5 million

Operating activities

For the nine months ended September 30, 2023, net cash used in operating activities was \$15.8 million. The contributors to the significant decrease in cash used during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 were the decrease in cash used for working capital in addition to the decrease in the operating loss, adjusted for depreciation, amortization, stock-based compensation expense, gain on derivatives, and other non-cash items. The decrease in cash used for working capital was the result of an increase in liabilities and a decrease in accounts receivable during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022. The operating loss decrease in the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 was primarily due to increased imagery and analytics revenue and decreased professional & engineering service costs.

Investing activities

The change in net cash used in investing activities was primarily due to a decrease in the purchases of short-term investments in government securities to \$29.2 million during the nine months ended September 30, 2023. In addition, we continue to have significant cash outflows for satellite procurement and launch related services. We also continue to incur labor costs for internally developed capitalized software as we add innovative new services and tools to our Blacksky Spectra software platform. These costs were partially offset by the redemption and maturity of \$50.1 million of our short-term investments in corporate debt and governmental securities in the nine months ended September 30, 2023.

Financing activities

The most significant impact in the change in cash flows from financing activities in the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 is the receipt of \$30.9 million in proceeds from our equity issuances, net of equity issuance costs, of which \$17.7 million was allocated to the liability-classified warrants in accordance with our accounting policy. Our equity issuances in the nine months ended September 30, 2023 included a private placement of 16.4 million shares at a purchase price of \$1.79 per share, which resulted in \$29.4 million in gross proceeds, as well as the sale of 1.8 million shares under our ATM offering program, which resulted in \$2.9 million in gross proceeds.

In addition, withholding tax payments on the vesting of RSUs decreased from \$4.6 million in the nine months ended September 30, 2022 to \$1.0 million in the nine months ended September 30, 2023. We also incurred \$0.9 million of transaction costs related to derivative liabilities and \$1.3 million of payments related to debt modification costs in the nine months ended September 30, 2023.

Critical Accounting Estimates

The preparation of our unaudited condensed consolidated financial statements and related notes requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Management has based its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a description of our significant accounting policies see Note 2—“Basis of Presentation and Summary of Significant Accounting Policies,” of the notes to the unaudited condensed consolidated financial statements. An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the unaudited condensed consolidated financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our unaudited condensed consolidated financial statements.

Revenue Recognition

The recognition and measurement of revenue requires the use of judgments and estimates. Specifically, judgment is used in interpreting complex arrangements with nonstandard terms and conditions and determining when all criteria for revenue recognition have been met.

We primarily generate revenue from the sale of imagery, data, software, and analytics, as well as, professional and engineering services.

Identifying the contract with customer, identifying the performance obligations contained in a contract, determining transaction price, allocating transaction price, and determining when performance obligations are satisfied can require the application of significant judgment, as further discussed below.

Identifying the Performance Obligations in a Contract

We execute contracts for a single promise or multiple promises. Specifically, our firm fixed price contracts typically include multiple promises which may be accounted for as separate performance obligations. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit or loss recorded in each period.

Classification of Revenue

We classify revenue as imagery and software analytical services, and professional and engineering services in our unaudited condensed consolidated statements of operations and comprehensive income (loss) based on the predominant attributes of the performance obligations.

Determination of and Allocation of Transaction Price

Each customer purchase order sets forth the transaction price for the products and services purchased under the arrangement. The Company estimates any variable consideration, and whether the transaction price is constrained, upon execution of each contract. We may adjust the transaction price over time for any estimated constraints that become probable based on service level provisions within some of our customer purchase orders. For contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. When it is necessary to allocate the transaction price to multiple performance obligations, management typically uses the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We also sell standard products or services with observable standalone revenue transactions. In these situations, the observable standalone revenue transactions are used to determine the standalone selling price.

Determination of when Performance Obligations are Satisfied

Imagery revenue is recognized ratably over the subscription period or at the point in time the customer receives access to the imagery. Software analytical services revenue derived from data, software, and analytics is recognized from the rendering of analytical and monitoring services over time on a firm-fixed price basis, or at the point in time the customer receives access to an analytic product. Professional and engineering services revenue is generated from both time and materials basis contracts and firm-fixed price service solutions contracts and firm-fixed price long-term engineering and construction contracts. Due to the long-term nature of our engineering and construction contracts, we generally recognize revenue over time using a cost-to-cost measure of progress because it best depicts the transfer of control to the customer as we incur costs on the contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s). The estimation of total estimated costs at completion is subject to many variables and requires judgment. We recognize 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. If at any time, the estimate of contract profitability indicates a probable anticipated loss on the contract, we recognize the total loss as and when known.

Equity Valuations

Equity valuations impact various amounts and accounting conclusions reflected in our unaudited condensed consolidated financial statements, inclusive of the recognition of equity-based compensation and warrant valuations. The following discussion provides additional details regarding the significant estimates, assumptions, and judgments that impacted the determination of the fair values of equity-based compensation awards, warrants, and the common stock that comprise our capital structure. The following discussion also explains why these estimates, assumptions, and judgments could be subject to uncertainties and future variability.

Equity-Based Compensation

We have equity and equity-based awards available for issuance under our 2021 Equity Incentive Plan ("2021 Plan"), 2014 stock incentive plan, and 2011 stock incentive plan. Awards issued include stock options, restricted stock awards ("RSAs"), and RSUs. Awards under these Plans were approved by the board of directors, and awards that have been canceled, forfeited, or expired are available for issuance in connection with our 2021 Plan.

For purposes of recognizing equity-based compensation related to RSAs, RSUs, and stock options granted to employees, management estimates the grant date fair values of such awards to measure the costs to be recognized for services received. For awards with time-based vesting conditions, we recognize compensation costs based upon the straight-line amortization of the grant date fair value of the awards over the requisite service period. When equity-based compensation awards include a performance condition, no compensation is recognized until the performance condition is deemed probable to occur; we then recognize compensation costs based on the accelerated attribution method, which accounts for awards with discrete vesting dates as if they were a separate award.

Stock Option and Class A Common Stock Warrant Valuations

We use the Black-Scholes option-pricing model to value all options and Class A common stock warrants. Estimating the fair value of stock options using the Black-Scholes option-pricing model requires the application of significant assumptions, such as the fair value of our Class A common stock, the estimated term of the options, risk-free interest rates, the expected volatility of the price of our Class A common stock, and an expected dividend yield. Each of these assumptions is subjective, requires significant judgment, and is based upon management's best estimates. If any of these assumptions were to change significantly in the future, equity-based compensation related to future awards may differ significantly, as compared with awards previously granted.

We have largely moved towards granting RSUs to the bulk of our employees, for which the grant date fair value is equal to the trading price fair value of the Class A common stock on the date of grant. For stock options, which are primarily granted to certain management employees, we use the following inputs under Black-Scholes as follows:

Expected Dividend Yield—The Black-Scholes valuation model requires an expected dividend yield as an input. The dividend yield is based on historical experience and expected future changes. We currently have no plans to pay dividends on our Class A common stock and, accordingly, have assumed no dividend yield upon valuation of our stock options.

Expected Volatility—As there was no observable volatility with respect to our Legacy BlackSky Class A common stock and due to the lack of sufficient history of BlackSky Class A common stock, the expected volatility of our Legacy BlackSky and BlackSky Class A common stock was estimated based upon the historical share price volatility of guideline comparable companies.

Risk-free Interest Rate—The yield on actively traded, non-inflation indexed U.S. Treasury notes was used to extrapolate an average risk-free interest rate based on the expected term of the underlying grants.

Expected Term—For options granted since 2021, as there is not a significant history of option exercises as a public company, we considered the option vesting terms and contractual period, as well as the demographics of the holders, in estimating the expected term. For options granted prior to 2021 when we were a private company, the expected term was the estimated duration to a liquidation event based on a weighted average consideration of the most likely exit prospects for that stage of development. We will continue to review our estimate in the future and adjust it, if necessary, due to changes in our historical exercises.

Private Placement Warrants and Sponsor Shares

We have classified the private placement warrants issued in October 2019 and March 2023 and Sponsor Shares as long-term liabilities in our unaudited condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022. The private placement warrants issued in October 2019 and the Sponsor Shares were initially recorded at fair value on the date of the Merger and the private placement warrants issued in March 2023 were recorded at fair value on the date of issuance. The Private Placement Warrants were recorded at fair value using a Black-Scholes option pricing model and the Sponsor Shares were recorded at fair value using a Monte Carlo simulation model. These liabilities are re-measured to fair value at each subsequent reporting date and recorded to gain on derivatives on our unaudited condensed consolidated statements of operations and comprehensive income (loss). We will continue to adjust the liability for changes in fair value until the financial instruments are exercised, redeemed, cancelled or released.

The fair value models require inputs including, but not limited to, the fair value of our Class A common stock, the risk-free interest rate, expected term, expected dividend yield and expected volatility. The fair value of our Class A common stock is the closing stock price on the NYSE as of the measurement date. The risk-free interest rate assumption is determined by using U.S. Treasury rates for the same period as the expected terms of the financial instruments. The dividend yield assumption is based on the dividends expected to be paid over the expected life of the financial instruments. We have historically been a private company and lacked sufficient company-specific historical and implied volatility information. Therefore, the expected stock volatility includes both BlackSky's Class A common stock and public warrant historical volatility as well as the historical volatility of a publicly traded set of peer companies. Changes in these assumptions can materially affect the estimate of the fair value of these instruments and ultimately the change in fair value.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported within the time period specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of reasonably ensuring that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures as of September 30, 2023, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of September 30, 2023, our disclosure controls and procedures were effective at a reasonable assurance level.

In designing and evaluating the disclosure controls and procedures, management recognized that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company will be detected.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting, (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in claims and proceedings arising in the ordinary course of our business. The outcome of any such claims or proceedings, regardless of the merits, is inherently uncertain.

ITEM 1A. RISK FACTORS

For risk factors relating to our business, please refer to the section entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2022 and filed by us with the SEC on March 23, 2023. Any of those factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

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

On December 15, 2022, we entered into an "at the market" (ATM) sales agreement with Jefferies LLC as our sales agent, under which we may offer and sell from time to time up to \$75 million of shares of our common stock in negotiated transactions or transactions that are deemed to be an ATM offering. During June, August, and September 2023, we raised gross proceeds of \$2.9 million through the sale of 1,843,471 shares in our ATM offering. We sold such shares at an average purchase price per share of \$1.59. After deducting commissions and other offering expenses associated with the ATM offering of \$0.9 million, the net proceeds to us from the transactions were \$1.9 million. We currently intend to use the net proceeds from the sale of the shares for working capital and other general corporate purposes.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The documents listed below are incorporated by reference or are filed with this report, in each case as indicated therein.

Exhibit No.	Exhibit Description	Form	SEC File No.	Exhibit No.	Filing Date	Filed or Furnished Herewith
31.1	Certification of the Company's Chief Executive Officer, Brian O'Toole, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of the Company's Chief Financial Officer, Henry Dubois, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of the Company's Chief Executive Officer, Brian O'Toole, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of the Company's Chief Financial Officer, Henry Dubois, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

* This certification is deemed not filed for purposes of section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act, or the Exchange Act.

SIGNATURES

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

November 8, 2023

BlackSky Technology Inc.

By: /s/ Brian E. O'Toole
Brian E. O'Toole
Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Henry Dubois
Henry Dubois
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Tracy Ward
Tracy Ward
Vice President and Controller
(Principal Accounting Officer)

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

I, Brian O'Toole, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 of BlackSky Technology Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

/s/ Brian O'Toole

Brian O'Toole

President and Chief Executive Officer
(Principal Executive Officer)

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

I, Henry Dubois, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 of BlackSky Technology Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

/s/ Henry Dubois

Henry Dubois

Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Quarterly Report of BlackSky Technology Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian O'Toole, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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/ Brian O'Toole

Brian O'Toole

President, Chief Executive Officer

(Principal Executive Officer)

Date: November 8, 2023

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

In connection with the Quarterly Report of BlackSky Technology Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henry Dubois, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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/ Henry Dubois

Henry Dubois

Chief Financial Officer

(Principal Financial Officer)

Date: November 8, 2023