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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 13, 2023

INTUITIVE MACHINES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**001-40823**	**36-5056189**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3700 Bay Area Blvd
Houston, TX 77058
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(281) 520-3703**

INFLECTION POINT ACQUISITION CORP.
34 East 51st Street, 5th Floor
New York, New York 10022
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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	LUNR	The Nasdaq Stock Market LLC
Warrants to purchase one share of Class A Common Stock, each at an exercise price of $11.50 per share	LUNRW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

EXPLANATORY NOTE

This Amendment No. 2 to the Current Report on Form 8-K/A is being filed with the Securities and Exchange Commission ("SEC") to amend the Current Report filed by Intuitive Machines, Inc. (the "Company") on February 14, 2023 (the "Original 8-K"), as amended by Amendment No. 1 on Form 8-K/A filed with the SEC on February 15, 2023 ("Amendment No. 1" and, together with the Original 8-K, the "Existing 8-K").

The Company is filing this Amendment No. 2 to the Existing 8-K to include:

(a) the audited consolidated financial statements of Intuitive Machines, LLC, a Delaware limited liability company (formerly, a Texas limited liability company), as of December 31, 2022 and December 31, 2021 as Exhibit 99.1;

(b) the Management's Discussion and Analysis of Financial Conditions and Results of Operations of Intuitive Machines, LLC as of December 31, 2022 as Exhibit 99.2; and

(c) the unaudited pro forma condensed combined financial information of Inflection Point Acquisition Corp. and Intuitive Machines, LLC as of and for the year ended December 31, 2022 as Exhibit 99.3.

This Amendment No. 2 does not amend any other item of the Existing 8-K or purport to provide an update or a discussion of any developments at the Company or its subsidiaries subsequent to the filing date of the Existing 8-K. The Existing 8-K remains unchanged.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The audited consolidated financial statements of Intuitive Machines, LLC as of December 31, 2022, and the related notes thereto, are attached as Exhibit 99.1 hereto and are incorporated herein by reference.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of Inflection Point Acquisition Corp. and Intuitive Machines, LLC, as of December 31, 2022 and for the year ended December 31, 2022 is set forth in Exhibit 99.3 hereto and is incorporated herein by reference.

(d) Exhibits.

Exhibit Number	Description
99.1	Audited consolidated financial statements of Intuitive Machines, LLC, as of December 31, 2022 and 2021 and for the years ended December 31, 2022.
99.2	Management's Discussion and Analysis of Financial Conditions and Results of Operations of Intuitive Machines, LLC as of December 31, 2022 for the year ended December 31, 2022.
99.3	Unaudited pro forma condensed combined financial information of Inflection Point Acquisition Corp. and Intuitive Machines, LLC, as of and for the year ended December 31, 2022.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

** The annexes, schedules, and certain exhibits to this Exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby agrees to furnish supplementally a copy of any omitted annex, schedule or exhibit to the SEC upon request.

+ Previously filed.

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 hereunto duly authorized.

Date: March 30, 2023

INTUITIVE MACHINES, INC.

By: /s/ Erik Sallee
Name: Erik Sallee
Title: Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Managers and Unitholders
Intuitive Machines, LLC and subsidiaries

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Intuitive Machines, LLC and subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations, members' equity, and cash flows for each of the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2021.

Houston, Texas
March 30, 2023

INTUITIVE MACHINES, LLC
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit amounts and par value)

	December 31, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 25,764	$ 29,289
Restricted cash	62	62
Trade accounts receivable, net of allowance for expected credit losses of $836 and $0, respectively	1,302	3,390
Contract assets	6,979	1,844
Prepaid and other current assets	6,885	1,186
Total current assets	40,992	35,771
Property and equipment, net	21,176	5,849
Operating lease right-of-use assets	4,829	1,829
Deferred income taxes	7	—
Total assets	$ 67,004	$ 43,449
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	$ 6,081	$ 2,658
Accounts payable - affiliated companies	442	218
Current maturities of long-term debt	16,098	12,108
Contract liabilities, current	56,656	49,629
Operating lease liabilities, current	725	514
Other current liabilities	15,178	3,292
Total current liabilities	95,180	68,419
Long-term debt, net of current maturities	3,863	—
Contract liabilities, non-current	2,188	10,530
Operating lease liabilities, non-current	5,078	2,371
Simple Agreements for Future Equity ("SAFE agreements")	18,314	13,973
Total liabilities	124,623	95,293
Commitments and contingencies (Note 14)		
MEMBERS' EQUITY		
Common units, $0.00001 par value, unlimited units authorized, 122,505,500 and 122,500,000 units issued and outstanding at December 31, 2022 and December 31, 2021	1	1
Paid in capital	14,967	14,337
Accumulated deficit	(72,587)	(66,182)
Total members' equity	(57,619)	(51,844)
Total liabilities and members' equity	$ 67,004	$ 43,449

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

INTUITIVE MACHINES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except unit and per unit amounts)

	Year Ended December 31,	
	2022	**2021**
Revenue	$ 85,946	$ 72,550
Operating expenses:		
Cost of revenues (excluding depreciation)	75,513	100,307
Depreciation	1,072	840
General and administrative expense (excluding depreciation)	14,868	9,291
Total operating expenses	91,453	110,438
Operating loss	(5,507)	(37,888)
Other income, net		
Interest expense, net	(836)	(224)
Gain on extinguishment of debt	—	1,806
Change in fair value of SAFE agreements	(91)	527
Other income, net	6	133
Total other (expense) income, net	$ (921)	$ 2,242
Loss before income taxes	(6,428)	(35,646)
Income tax benefit (expense)	23	(2)
Net loss	$ (6,405)	$ (35,648)
Net loss per unit		
Basic	$ (0.05)	$ (0.29)
Diluted	$ (0.05)	$ (0.29)
Weighted-average number of units outstanding		
Basic	122,501,241	122,500,000
Diluted	122,501,241	122,500,000

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

INTUITIVE MACHINES, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
(in thousands, except unit data)

	Members Units		Paid-in	Accumulated	Noncontrolling	
	Units	Amount	Capital	Deficit	Interest	Total
Balance, December 31, 2020	122,500,000	$ 1	$ 14,168	$ (30,534)	$ 1,351	$ (15,014)
Share-based compensation expense	—	—	318	—	—	318
Investment in Intuitive Aviation	—	—	(149)	—	(1,351)	(1,500)
Net loss	—	—	—	(35,648)	—	(35,648)
Balance, December 31, 2021	122,500,000	1	14,337	(66,182)	—	(51,844)

	Members Units		Paid-in	Accumulated	Noncontrolling	
	Units	Amount	Capital	Deficit	Interest	Total
Balance, December 31, 2021	122,500,000	1	14,337	(66,182)	—	(51,844)
Issuance of Units	5,500	—	6	—	—	6
Share-based compensation expense	—	—	624	—	—	624
Net loss	—	—	—	(6,405)	—	(6,405)
Balance, December 31, 2022	122,505,500	$ 1	$ 14,967	$ (72,587)	$ —	$ (57,619)

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

INTUITIVE MACHINES, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (6,405)	$ (35,648)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,072	840
Loss on disposal of property and equipment	6	—
Gain on extinguishment of debt	—	(1,806)
Share-based compensation expense	624	318
Change in fair value of SAFE agreements	91	(527)
Deferred income taxes	(7)	—
Other	13	—
Changes in operating assets and liabilities:		
Trade accounts receivable, net	2,088	(2,687)
Accounts receivable - affiliated companies	—	114
Contract assets	(5,135)	5,309
Prepaid expenses	(5,699)	(738)
Other assets, net	(2,999)	293
Accounts payable	3,423	(9,240)
Accounts payable - affiliated companies	225	157
Contract liabilities - current and long-term	(1,316)	25,416
Other liabilities	14,803	1,631
Net cash provided by (used in) operating activities	784	(16,568)
Cash flows from investing activities:		
Purchase of property and equipment	(16,405)	(3,176)
Net cash used in investing activities	(16,405)	(3,176)
Cash flows from financing activities:		
Proceeds from borrowings	7,948	12,170
Repayment of loans	(108)	(63)
Proceeds from issuance of units	6	—
SAFE agreements	4,250	13,000
Net cash provided by financing activities	12,096	25,107
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,525)	5,363
Cash, cash equivalents and restricted cash at beginning of the period	29,351	23,988
Cash, cash equivalents and restricted cash at end of the period	25,826	29,351
Less: restricted cash	62	62
Cash and cash equivalents at end of the period	$ 25,764	$ 29,289

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

NOTE 1 - BUSINESS DESCRIPTION

Intuitive Machines, LLC (the "Company", "IM", "Intuitive Machines", "we" or "our") designs, manufactures and operates space products and services. Intuitive Machines' near-term focus is to create and operate space systems and space infrastructure on and in the vicinity of the Moon that enable scientific and human exploration and utilization of lunar resources to support sustainable human presence on the Moon and exploration to Mars and beyond. Intuitive Machines offers its customers the flexibility needed to pioneer a thriving and diverse lunar economy designed to enable a permanent presence in lunar orbit and on the lunar surface. IM is currently headquartered in Houston, Texas.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The Company's consolidated financial statements as of and for the years ended December 31, 2022 and 2021 have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and pursuant to the rules and regulations of the SEC. Our consolidated financial statements include the accounts of Intuitive Machines, the accounts of Intuitive Aviation Inc. ("IA" or "Intuitive Aviation"), a wholly owned subsidiary, Space Network Solutions, LLC ("SNS" or "Space Network Solutions"), and IX, LLC, variable interest entities ("VIE") for which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

The Company bases its estimates and assumptions on historical experience, other factors, including the current economic environment and on various other judgments that it believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Unit Split

On May 25, 2021, in accordance with the amended and restated LLC agreement, Class A Unit Interests increased by a multiple of one hundred thousand (100,000) or 1 to 100,000 unit (the "Unit Split"). The Class A members and their respective unit interests uniformly increased. Unless otherwise indicated, all share and per share amounts presented herein have been retroactively adjusted to reflect the impact of the Unit Split.

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker ("CODM") in making decisions regarding resource allocation and assessing performance. All of the Company's assets are maintained in the United States. The Company has determined that it operates in one operating segment and one reportable segment, as the CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources and evaluating financial performance.

Certain Significant Risks and Uncertainties

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. By their nature, all such financial instruments involve risks, including the credit risk of nonperformance by counterparties. The Company generally does not require collateral to support the obligations of the counterparties and cash levels held at banks are more than federally insured limits. The Company limits its exposure to credit loss by maintaining its cash and cash equivalents with highly rated financial institutions. The Company has not experienced material losses on its deposits of cash and cash equivalents.

The Company monitors the creditworthiness of its customers to whom it grants credit terms in the normal course of its business. The Company evaluates the collectability of its accounts receivable based on known collection risks and historical experience. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations to the Company (e.g., bankruptcy filings, substantial downgrading of credit ratings), the Company records a specific allowance for expected credit losses against amounts to reduce the net recognized receivable to the amount it reasonably believes will be collected and revenue recognition is deferred until the amount is collected and the contract is completed. For all other customers, the Company records allowances for credit losses based on the specific analysis of the customer's ability to pay on an as needed basis.

Major customers are defined as those individually comprising more than 10% of revenue. For the years ended December 31, 2022 and 2021, there was one major customer that accounted for 83% and 83%, respectively, of the Company's total revenue. The largest customer did not have any accounts receivable as of December 31, 2022, while two other customers accounted for 35% and 14% of the accounts receivable balance as of December 31, 2022. The largest customer did not have any accounts receivable as of December 31, 2021, while two other customers accounted for 40% and 30% of the accounts receivable balance as of December 31, 2021.

Major suppliers are defined as those individually comprising more than 10% of the annual goods or services purchased. For the years ended December 31, 2022 and 2021, the Company had one major supplier representing 63% and 42% of goods and services purchased, respectively. As of December 31, 2022, the largest supplier represented 21% of the accounts payable balance. As of December 31, 2021, the largest supplier did not have any accounts payable, while two other suppliers accounted for 17% and 13% of the accounts payable balance.

Liquidity and Capital Resources

The audited consolidated financial statements as of and for the years ended December 31, 2022 and 2021, and related notes (collectively referred to as the "consolidated financial statements") were prepared on the basis of a going concern, which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business.

As of December 31, 2022, the Company had cash and cash equivalents of $25.8 million and a working capital deficit of $53.5 million. The Company has historically funded its operations through internally generated cash on hand, proceeds from sales of our capital stock including the execution of SAFE agreements, and proceeds from the issuance of bank debt.

As further described in Note 17, on February 13, 2023, as contemplated by the business combination agreement entered into as of September 16, 2022, the Company and Intuitive Machines, Inc. (formerly Inflection Point Acquisition Corp. or “IPAX”) consummated the business combination to effect the merger of the Company and IPAX. Upon the close of the business combination, the Company received approximately $34.1 million of gross proceeds to fund operations. Additionally, as a result of the close, the Company entered into a common stock purchase agreement relating to an equity facility under which the Company may direct the counterparty to purchase up to $50 million of newly issued common stock subject to certain requirements and limitations.

Management believes that the cash available from the consummation of the business combination and related transactions will be sufficient to fund the short-term liquidity needs and the execution of the business plan through at least the twelve-month period from the date the financial statements are issued.

Cash and Cash Equivalents

The Company considers cash, time deposits and other highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consists of cash not readily available for general purpose cash needs. Restricted cash relates to cash held at commercial banks to support credit accounts. Restricted cash serving as collateral will be released upon full repayment of the credit account.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recorded at the invoiced amount and unbilled receivable, less an allowance for any potential expected uncollectible amounts and do not bear interest. The Company estimates allowance for credit losses based on the credit worthiness of each customer, historical collections experience and other information, including the aging of the receivables. The Company writes off accounts receivable against the allowance for credit losses when a balance is unlikely to be collected.

Prepayments and Other Current Assets

Prepaid and other current assets primarily consist of prepaid service fees, security deposits and other general prepayments.

Property and Equipment, Net

Property and equipment, net are stated at cost, less accumulated depreciation. Property and equipment which are not in service are classified as construction-in-process.

Depreciation is computed using the straight-line method over the following estimated useful lives of assets:

Asset	Useful Life
Leasehold improvements	1 - 7 years
Vehicles and trailers	3 - 5 years
Computers and software	3 years
Furniture and fixtures	5 years
Machinery and equipment	3 - 7 years

Expenditures for maintenance and repairs that do not extend the useful lives of property and equipment are recognized as expenses when incurred. Upon retirement or sale of assets, the cost and related accumulated depreciation and amortization is written off. No material gains or losses related to the sale of assets have been recognized in the accompanying consolidated statements of operations.

Long-Lived Assets

Long-lived assets consist of property and equipment, net, and are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of the long-lived asset may not be recoverable. Recoverability is measured by comparing the carrying value of a long-lived asset to the future undiscounted cash flows that the long-lived asset is expected to generate from use and eventual disposition. An impairment loss will be recognized if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. No impairment charges were recorded for the years ended December 31, 2022 and 2021.

Operating Lease Liabilities and Right-of-Use Assets

We determine whether a contract is or contains a lease when we have the right to control the use of the identified asset in exchange for consideration. Lease liabilities and right-of-use assets ("ROU assets") are recognized at the commencement date based on the present value of lease payments over the lease term. We use our incremental borrowing rate in the calculation of present value unless the implicit rate can be readily determined, however, the lease liability associated with leases calculated using implicit rates is not significant. Certain leases include provisions for the renewal or termination. We only consider fixed payments and those options that are reasonably certain to be exercised in the determination of the lease term and the initial measurement of lease liabilities and ROU assets. Expense for operating lease payments is recognized as lease expense on a straight-line basis over the lease term. We do not separate lease and non-lease components of a contract. Operating lease ROU assets are presented within Operating lease right-of-use assets on our consolidated balance sheet. See Note 5 - Leases for further disclosures and information on leases.

Fair Value Measurements

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade receivables, trade payables, amounts receivable or payable to related parties and long-term debt. The carrying amount of cash and cash equivalents, trade receivables, trade payables and receivables and payables from affiliates approximates fair value because of the short-term nature of the instruments. The fair value of debt approximates its carrying value because the cost of borrowing fluctuates based upon market conditions.

We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We estimate fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which is categorized in one of the following levels:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and
- Level 3: Significant inputs to the valuation model are unobservable.

General and Administrative Expense

General, selling, and administrative expenses consist of human capital related expenses for employees involved in general corporate functions, including executive management and administration, accounting, finance, tax, legal, information technology, marketing, and human resources; rent relating to the Company's office space; professional fees and other general corporate costs. Human capital expenses primarily include salaries and benefits.

Revenue Recognition

Most of our revenues are from long-term contracts associated with the engineering services for the research, design, development, manufacturing, integration and sustainment of advanced technology aerospace systems. Revenue is measured based on the amount of consideration specified in a contract with a customer. Revenue is recognized when and as our performance obligations under the terms of the contract are satisfied which generally occurs with the transfer of services to the customer. For each long-term contract, we determine the transaction price based on the consideration expected to be received. We allocate the transaction price to each distinct performance obligation to deliver a good or service, or a collection of goods and/or services, based on the relative standalone selling prices.

Contract Combination

To determine the proper revenue recognition method for contracts, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires judgment and the decision to combine a group of contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in each period. Contracts are considered to have a single performance obligation if the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts primarily because we provide a significant service of integrating a complex set of tasks and components into a single project or capability.

Contract Types

The Company performs work under contracts that broadly consist of fixed-price, time and materials or a combination of the two. Pricing for all customers is based on specific negotiations with each customer.

For most of our business, where performance obligations are satisfied due to the continuous transfer of control to the customer, revenue is recognized over time. Where the customer contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability, those contracts are accounted for as single performance obligations. We recognize revenue generally using the cost-to-cost method, based primarily on contract costs incurred to date compared to total estimated contract costs at completion. This method is deemed appropriate in measuring performance towards completion because it directly measures the value of the goods and services transferred to the customer. Billing timetables and payment terms on our contracts vary based on a few factors, including the contract type. Typical payment terms under fixed-price contracts provide that the customer pays either performance-based payment based on the achievement of contract milestones or progress payments based on a percentage of costs we incur.

For a small portion of our business, where we have the right to consideration from the customer in an amount that corresponds directly with the value received by the customer based on our performance to date, revenue is recognized when services are performed and contractually billable. Under the typical payment terms of our services contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., weekly, biweekly, or monthly) or upon achievement of contractual milestones.

Contract Costs

Contract costs include all direct materials, labor and subcontractor costs and an allocation of indirect costs related to contract performance. Customer-furnished materials are included in both contract revenue and cost of revenue when management concludes that the company is acting as a principal rather than as an agent. Revenue for uninstalled materials is recognized when the cost is incurred and control is transferred to the customer, which revenue is recognized using the cost-to-cost method. Certain costs associated with significant long-term service arrangements are capitalized and amortized across the life of the contract. Capitalized contract costs primarily relate to prepaid pre-launch integration and engineering services and launch services subcontracted with a third-party. Pre-launch integration and engineering services and launch services are capitalized and amortized over the term of the contract on a systematic basis that is consistent with the transfer of the goods and services to our end customer. Project mobilization costs are generally charged to the project as incurred when they are an integrated part of the performance obligation being transferred to the client. Costs to obtain a contract are expensed as incurred unless they are expected to be recovered from the customer.

Variable Consideration

It is common for our contracts to contain variable consideration in the form of award fees, incentive fees, performance bonuses, liquidated damages or penalties that may increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or targets and can be based on customer discretion. We estimate the amount of variable consideration based on a weighted probability or the most likely amount to which we expect to be entitled. Variable consideration is included in the transaction price when it is probable that a significant reversal of cumulative revenue recognized will not occur or when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on our assessment of legal enforceability, anticipated performance, and any other information (historical, current or forecasted) that is reasonably available to us.

Contract Estimates and Modifications

Due to the nature of the work required to be performed on many of our performance obligations, the estimation of total revenue and cost at completion is complex and subject to many variables and requires significant judgment. As a significant change in estimated total revenue and cost could affect the profitability of our contracts, we routinely review and update our contract-related estimates through a disciplined project review process in which management reviews the progress and execution of our performance obligations and the estimate at completion. As part of this process, management reviews information including, but not limited to, outstanding contract matters, progress towards completion, program schedule and the associated changes in estimates of revenues and costs. Management must make assumptions and estimates regarding the availability and productivity of labor, the complexity of the work to be performed, the availability and cost of materials, the performance of subcontractors and the availability and timing of funding from the customer, along with other risks inherent in performing services under all contracts where we recognize revenue over time using the cost-to-cost method.

We typically 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 prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the period it is identified.

Contracts are often modified to account for changes in contract specifications and requirements. Most of our contract modifications are for goods or services that are not distinct from existing contracts due to the significant integration provided in the context of the contract and are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis. We account for contract modifications prospectively when the modification results in the promise to deliver additional goods or services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

Unbilled Receivables and Deferred Revenue

Billing practices are governed by the contract terms of each project based upon costs incurred, achievement of milestones or predetermined schedules. Billings do not necessarily correlate with revenue recognized over time using the cost-to-cost method. Unbilled receivables (contract assets) include unbilled amounts typically resulting from revenue under long-term contracts when the cost-to-cost method of revenue recognition is utilized, and revenue recognized exceeds the amount billed to the customer. Deferred revenue (contract liabilities) consists of advance payments and billings in excess of revenue recognized. Our unbilled receivables and deferred revenue are reported in a net position on a contract-by-contract basis at the end of each reporting period.

The payment terms of our contracts from time to time require the customer to make advance payments as well as interim payments as work progresses. The advance payment generally is not considered to contain a significant financing component as we expect to recognize those amounts in revenue within a year of receipt as work progresses on the related performance obligation.

Income Taxes

Intuitive Machines

Intuitive Machines has elected to be treated as a partnership for income tax purposes. Partnerships are not subject to U.S. federal income taxes. Rather, the partnership's taxable income flows through to the owners, who are responsible for paying the applicable income taxes on the income allocated to them. Accordingly, no provision for federal income taxes has been recorded for Intuitive Machines, LLC. However, the Company is subject to Texas Margin Taxes. The Company recorded $23 thousand of income tax benefit and $2 thousand of income tax expense for the years ended December 31, 2022 and 2021, respectively, in the accompanying consolidated statements of operations.

Intuitive Machines is subject to partnership audit rules enacted as part of the Bipartisan Budget Act of 2015 ("the Centralized Partnership audit Regime"). Under the Centralized Partnership Audit Regime, any Internal Revenue Service ("IRS") audit of Intuitive Machines would be conducted at the Company level, and if the IRS determines an adjustment, the default rule is that Intuitive Machines would pay an "imputed underpayment" including interest and penalties, if applicable. Intuitive Machines may instead elect to make a "push-out" election, in which case the partners for the year that is under audit would be required to take into account the adjustments on their own personal or business tax returns. If Intuitive Machines receives an imputed underpayment, a determination will be made based on the relevant facts and circumstances that exist at that time to allocate such imputed underpayment to each partner based on their specific share of such imputed underpayment. Any payments that Intuitive Machines ultimately makes on behalf of its current partners will be reflected as a distribution, rather than tax expense, at the time that such distribution is declared.

Intuitive Aviation

Intuitive Aviation is a corporation for tax purposes and is subject to U.S. federal income taxes. Accordingly, provision for income taxes has been recorded for Intuitive Aviation, Inc. We use the asset and liability method of accounting for income taxes for Intuitive Aviation. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss ("NOL") and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the results of operations in the period that includes the enactment date. The realizability of deferred tax assets is evaluated quarterly based on a "more likely than not" standard and, to the extent this threshold is not met, a valuation allowance is recorded.

We have determined that there are not any tax positions outstanding that would fail to meet a "more likely than not" standard, and therefore there have not been any uncertain tax positions identified.

Space Network Solutions

Space Network Solutions has elected to be treated as a partnership for income tax purposes. Partnerships are not subject to U.S. federal income taxes. Rather, the partnership's taxable income flows through to the owners, who are responsible for paying the applicable income taxes on the income allocated to them. Accordingly, no provision for federal income taxes has been recorded for Space Network Solutions, LLC. However, Space Network Solutions is subject to Texas Margin Taxes. The Company recorded $0 for the years ended December 31, 2022 and 2021, respectively, in income tax expense in the accompanying consolidated statements of operations.

Space Network Solutions is subject to partnership audit rules enacted as part of the Bipartisan Budget Act of 2015 ("the Centralized Partnership audit Regime"). Under the Centralized Partnership Audit Regime, any Internal Revenue Service ("IRS") audit of Space Network Solutions would be conducted at the Company level, and if the IRS determines an adjustment, the default rule is that Space Network Solutions would pay an "imputed underpayment" including interest and penalties, if applicable. Space Network Solutions may instead elect to make a "push-out" election, in which case the partners for the year that is under audit would be required to take into account the adjustments on their own personal or business tax returns. If Space Network Solutions receives an imputed underpayment, a determination will be made based on the relevant facts and circumstances that exist at that time to allocate such imputed underpayment to each partner based on their specific share of such imputed underpayment. Any payments that Space Network Solutions ultimately makes on behalf of its current partners will be reflected as a distribution, rather than tax expense, at the time that such distribution is declared.

The Company follows the guidance of ASC Topic 740, *Income Taxes.* Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses. The open tax years for Intuitive Machines' and Intuitive Aviation's tax returns include 2019 through 2021 for state and federal reporting purposes.

Unit-Based Compensation

We recognize all unit-based awards to employees and directors as unit-based compensation expense based upon their fair values on the date of grant.

We estimate the fair value of unit-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as an expense during the requisite service periods. We have estimated the fair value for each option award as of the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model considers, among other factors, the expected life of the award and the expected volatility of our unit price. We recognize the unit-based compensation expense over the requisite service period using the straight-line method for service condition only awards, which is generally a vesting term of five years. Forfeitures are accounted for in the period in which they occur.

Accounting Principles Recently Adopted

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), which removes specific exceptions to the general principles in ASC Topic 740 related to the incremental approach for intra-period tax allocation, accounting for basis differences for ownership changes in foreign investments and interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax and enacted changes in tax laws in interim periods. For private entities, this ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within those years. Early adoption is permitted. The adoption of ASU 2019-12 did not have a material impact on our financial condition, results of operations, and cash flows.

In October 2020, the FASB issued ASU 2020-10, Codification Improvements, which removes references to various FASB Concepts Statements, properly situates all disclosure guidance in the appropriate disclosure section of the Codification as well as makes other improvements and technical corrections to the Codification that are not expected to have a significant effect on current accounting practice. The changes of this ASU are effective for annual periods beginning after December 15, 2021. The adoption of ASU 2020-10 did not have a material impact on our financial condition, results of operations, or cash flows.

NOTE 3 - REVENUE

Disaggregated Revenues

We disaggregate our revenue from contracts with customers by contract type. The following tables provide information about disaggregated revenue for the years ended December 31, 2022 and 2021 (in thousands):

	Year Ended December 31,			
	2022		2021	
Revenue by Contract Type				
Fixed price	$ 80,801	94%	$ 68,487	94%
Time and materials	5,145	6%	4,063	6%
Total	$ 85,946	100%	$ 72,550	100%

Contract Assets and Liabilities

Contract assets primarily relate to deferred contract costs for subcontracted launch services, as well as work completed not yet billed for performance obligations that are satisfied over time. Deferred contract costs and unbilled receivables are recorded contract assets on our consolidated balance sheets. Contract assets related to deferred contract costs are amortized straight-line across the life of the long-term service arrangement. Contract assets related to work completed for performance obligations that are satisfied over time are transferred to receivables when the right to consideration becomes unconditional. Contract liabilities relate to billings or consideration received in advance of performance (obligation to transfer goods or services to a customer) under the contract as well as provisions for loss contracts. Contract liabilities are recognized as revenue when the performance obligation has been performed. Current deferred revenue and provisions for loss contracts are recorded in current contract liabilities on our consolidated balance sheets. Long-term deferred revenue and provisions for loss contracts are recorded in long-term contract liabilities on our consolidated balance sheets.

The following table presents contract assets as of December 31, 2022 and December 31, 2021 (in thousands):

	December 31, 2022	December 31, 2021
Contract Assets		
Deferred contract costs	$ 6,633	$ 1,800
Unbilled receivables	347	44
Total	$ 6,979	$ 1,844

For the years ended December 31, 2022 and 2021, amortization expense associated with deferred contract costs for subcontracted launch services is recorded in cost of services and was $43.3 million and $45.7 million, respectively.

The following table presents contract liabilities as of December 31, 2022 and December 31, 2021 (in thousands):

	December 31, 2022	December 31, 2021
Contract Liabilities		
Contract liabilities – current		
Deferred revenue	$ 39,831	$ 31,644
Contract loss provision	10,120	12,001
Accrued launch costs	6,705	5,984
Total contract liabilities – current	56,656	49,629
Contract liabilities – long-term		
Contract loss provision	2,188	10,530
Total contract liabilities – long-term	2,188	10,530
Total contract liabilities	$ 58,844	$ 60,159

Revenue recognized from amounts included in contract liabilities at the beginning of the period was $31.4 million and $30.5 million during the years ended December 31, 2022 and 2021, respectively.

Loss Contracts

Contract losses are a result of constraining variable consideration and estimated contract costs exceeding current contract price. The Company experiences favorable or unfavorable changes to contract losses from time to time due to changes in estimated contract costs and modifications that result in changes to contract price. In the year ended December 31, 2022 and 2021, we recorded $(9.3) million and $31.5 million in cumulative (favorable) and unfavorable changes, respectively, related to contracts with customers.

As of December 31, 2022, the status of these loss contracts were as follows:

- The first contract, for commercial lunar payload services, became a loss contract in 2019 due to the constraint of variable consideration. Variable consideration has been constrained to $0 from a total potential amount of $8.1 million. For the years ended December 31, 2022, and 2021, changes in contract price and estimated contract costs resulted in (favorable) and unfavorable changes of $(11.1) million and $11.7 million, respectively. As of December 31, 2022, and 2021, this contract was approximately 96% complete and 83% complete, respectively. The contract is anticipated to be 100% complete as of March 2023. As of December 31, 2022 and 2021, the reserve for estimated contract losses recorded in other current liabilities in our consolidated balance sheets was $0.4 million and $3.9 million, respectively.

- The second contract, for commercial lunar payload services, became a loss contract in 2021 due to the constraint of variable consideration and estimated contract costs exceeding current contract price. Variable consideration has been constrained to $0 from a total potential amount of $7.8 million. For the years ended December 31, 2022, and 2021, changes in estimated contract costs resulted in (favorable) and unfavorable changes of $(4.7) million and $19.3 million, respectively. As of December 31, 2022, and 2021, this contract was approximately 32.5% complete and 4% complete, respectively. The contract is anticipated to be 85% complete and 100% complete as of December 2023 and 2024, respectively. As of December 31, 2022 and 2021, the reserve for estimated contract losses recorded in other current liabilities in our consolidated balance sheets was $9.9 million and $18.5, respectively.

- The third contract, for commercial lunar payload services, became a loss contract in 2022 due to the constraint of variable consideration and estimated contract costs exceeding current contract price. Variable consideration has been constrained to $0 from a total potential amount of $8.4 million. For the years ended December 31, 2022, and 2021, changes in estimated contract costs resulted in an additional $6.0 million and $0 contract loss, respectively. As of December 31, 2022 this contract was approximately 69.1% complete. The contract is anticipated to be 100% complete as of May 2024. As of December 31, 2022, the reserve for estimated contract losses recorded in other current liabilities in our consolidated balance sheet was $1.9 million.

- The remaining loss contracts are individually and collectively immaterial.

Remaining Performance Obligations

Remaining performance obligations represent the remaining transaction price of firm orders for which work has not been performed and excludes unexercised contract options. As of December 31, 2022, the aggregate amount of the transaction price allocated to remaining fixed price performance obligations was $101.4 million. The Company expects to recognize revenue on approximately 80-85% of the remaining performance obligations over the next 12 months, 15-20% recognized in 2024 and the remaining thereafter. Remaining performance obligations do not include variable consideration that was determined to be constrained as of December 31, 2022.

For time and materials contracts, we have adopted the practical expedient that allows us to recognize revenue based on our right to invoice; therefore, we do not report unfulfilled performance obligations for time and materials agreements.

NOTE 4 - PROPERTY AND EQUIPMENT, NET

As of December 31, 2022, and 2021, property and equipment, net consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Leasehold improvements	$ 1,544	$ 1,527
Vehicles and trailers	129	129
Computers and software	1,673	1,306
Furniture and fixtures	794	766
Machinery and equipment	2,211	1,962
Construction in progress	17,747	2,282
Property and equipment, gross	24,098	7,972
Less: accumulated depreciation and amortization	(2,922)	(2,123)
Property and equipment, net	$ 21,176	$ 5,849

Total depreciation related to property and equipment for the years ended December 31, 2022 and 2021 was $1.1 and $0.8 million, respectively.

As of December 31, 2022 and 2021, the Company pledged property and equipment with net book value of approximately $20.3 million and $4.7 million, respectively, as security for its comprehensive credit facilities with Live Oak Bank.

As of December 31, 2022, Construction in progress includes $10.3 million of construction costs for a lunar operations center as further described in Note 5 - Leases as well as $7.3 million of costs associated with the fabrication of a commercial communications satellite. The Company capitalized interest in connection with construction in progress of $247 thousand and $33 for the years ended December 31, 2022 and 2021, respectively.

NOTE 5 - LEASES

The Company leases real estate for office space and for administrative, research, marketing and light manufacturing operations of the Lessee's aerospace related research and development business under operating leases. There are no finance leases.

The Company has six real estate leases with lease terms ranging from 16 months to 250 months, some of which contain options to extend and some of which contain options to terminate the lease without cause at the option of lessee.

The Company's real estate leasing agreements include terms requiring the Company to reimburse the lessor for its share of real estate taxes, insurance, operating costs and utilities which the Company accounts for as variable lease costs when incurred since the company has elected to not separate lease and non-lease components, and hence are not included in the measurement of lease liability. For the years ended December 31, 2022 and 2021, there were no significant variable lease costs. There are no restrictions or covenants imposed by any of the leases, and none of the Company's leases contain material residual value guarantees.

In the year ended December 31, 2021, the Company signed a ground lease agreement for the development of a lunar operations center that will serve as a production and testing facility of lunar lander components and other aerospace related operations. The facility is currently under construction, and the lessor will reimburse up to $40 million for certain costs incurred by the Company for design, construction, and development. The Company concluded that it was deemed the owner, for accounting purposes only, of the facility under build-to-suit lease accounting due to its involvement in the construction activities of the facility. Accordingly, the Company is accounting for the construction of the facility as a financing arrangement. As of December 31, 2022, the Company has capitalized $10.3 million of construction in progress and a corresponding financing obligation of $9.1 million. Upon completion of the construction project, the ground lease agreement will have an initial term of 20 years with four optional renewal periods of 5 years each. During the fourth quarter of 2022, construction was completed for a portion of the lunar operations center, and the Company took possession of the completed facility. Upon commencement of the lease, the Company determined that the facility qualified for sale and leaseback accounting, with the leaseback being classified as an operating lease. The Company recorded right-of-use assets and corresponding lease liabilities of approximately $3.1 million. No gain or loss was recognized or deferred on the sale of the facility, as the fair value upon completion was determined to be equal to the carrying value.

As of December 31, 2022, the Company had entered into an operating lease for additional office space that had not yet commenced. The lease commenced in January 2023 with a lease term of 8 months.

The components of total lease expense are as follows (in thousands):

	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating lease cost	$ 721	$ 478
Total lease cost	$ 721	$ 478

The components of supplemental cash flow information related to operating leases are as follows (in thousands):

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash paid (received) for amounts included in the measurement of lease liabilities:		
Cash flow from operating activities	$ 832	$ 633
Weighted Average Lease Term (months)	155	59
Weighted average discount rate	5.7%	6.0%

The Company recorded $10.3 million and zero in property and equipment related to reimbursable leasehold improvement costs incurred as of December 31, 2022 and 2021, respectively.

The supplemental balance sheet information related to operating leases for the period is as follows (in thousands):

	December 31, 2022	December 31, 2021
Long-term right-of-use assets	$ 4,829	$ 1,829
Current lease liabilities	$ 725	$ 514
Long-term lease liabilities	5,078	2,371
Total operating lease liabilities	$ 5,803	$ 2,885

The table below includes the estimated future undiscounted cash flows for operating leases as of December 31, 2022 (in thousands):

Year Ending December 31,	**Amount**
2023	$ 858
2024	916
2025	768
2026	706
2027	219
Thereafter	5,681
Total undiscounted lease payments	$ 9,148
Less: imputed interest	3,345
Present value of lease liabilities	$ 5,803

NOTE 6 - DEBT

The following table summarizes our outstanding debt (in thousands):

	December 31, 2022	**December 31, 2021**
Credit Mobilization Facility	$ 20,000	$ 12,000
First Insurance Funding Loan	—	108
Principal amount of long-term debt	20,000	12,108
Less: deferred financing costs	(39)	—
Less: current maturities	(16,098)	(12,108)
Long-term debt, net of current maturities	3,863	—

As of December 31, 2022, the weighted-average interest rate on short-term borrowings outstanding was 6.55%. As of December 31, 2021, the weighted-average interest rate on short-term borrowings outstanding was 5.25%.

Live Oak Credit Mobilization Credit Facility Line of Credit

On December 12, 2019, we entered into a loan agreement with Live Oak Banking Company which provided a $12.0 million Credit Mobilization Facility with a due date of December 12, 2022 and a $1.0 million line of credit with a due date of December 12, 2020. Both the Credit Mobilization Facility and line of credit bear interest (payable monthly) at a rate per annum equal to 6.0%. The Credit Mobilization Facility and line of credit are secured by substantially all of the assets of the Company. On December 8, 2020 the Company entered into a Loan Modification Agreement with Live Oak Banking Company which amended the terms of the line of credit, including decreasing the maximum principal from $1.0 million to $400 thousand, extending the maturity date from December 12, 2020 to December 10, 2021, and changing the interest rate from 6.0% to a variable interest rate at the prime rate, as published in the Wall Street Journal newspaper, plus 2.0%. On April 30, 2021, we entered into a commitment with Live Oak Banking Company which provided a $12.0 million contract mobilization credit facility with a loan maturity of November 15, 2022, which superseded the existing contract mobilization credit facility. On December 10, 2021 the line of credit expired. The Company had no balance outstanding at that time and did not renew the line of credit.

On July 14, 2022, we entered into the Second Amended and Restated Loan Agreement with Live Oak Banking Company which provided an $8.0 million mobilization credit facility with a loan maturity of July 14, 2024 and extended the maturity date of our existing $12.0 million mobilization credit facility to November 14, 2023. The $8.0 million mobilization credit facility requires early payment of principal upon the completion of certain mission milestones. If the milestones are completed, principal payments of $4.1 million and $3.9 million would be due prior to loan maturity in 2023 and 2024, respectively. The $12.0 million mobilization credit facility requires principal payments of $8.0 million on August 15, 2023 and $4.0 million on November 14, 2023. The mobilization credit facilities bear interest (payable monthly) at a rate per annum equal to the greater of (a) the prime rate, as published in the Wall Street Journal newspaper, plus 2% and (b) 5%. The mobilization credit facilities require the Company to meet certain financial and other covenants and are secured by substantially all of the assets of the Company. There was $20 and $12 million outstanding under the credit mobilization facilities as of December 31, 2022 and 2021, respectively.

Paycheck Protection Program

On April 7, 2020, the Company received loan proceeds of $1.8 million (the “PPP Loan”) pursuant to the Paycheck Protection Program (“PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The PPP Loan, which was in the form of a promissory note (the “Note”), dated April 7, 2020, between Intuitive Machines and Live Oak Banking Company, as the lender, originally matured on April 7, 2022. Under the terms of the PPP, some or all of the PPP Loan amount may be forgiven if the PPP Loan proceeds are used for qualifying expenses as described in the CARES Act and the Note, such as payroll costs, benefits, rent, and utilities. The Company applied for forgiveness to the Small Business Association (“SBA”) on December 14, 2020. On April 4, 2021, the Company was notified that the PPP Loan was forgiven and recorded a $1.8 million gain on extinguishment of debt.

First Insurance Funding Loans

On August 24, 2021, we entered into a loan agreement with First Insurance Funding (“First FIF Loan”) which provided $0.1 million in credit to be used to purchase certain insurance policies with a due date of May 21, 2022. On December 3, 2021, we entered into a second loan agreement with First Insurance Funding (“Second FIF Loan”) which provided an additional $0.1 million in credit to be used to purchase certain insurance policies with a due date of May 21, 2022. Both the First FIF Loan and the Second FIF Loan, collectively the “FIF Loans”, bear interest (payable monthly) at a rate per annum equal to 5.9%. There was $— and $0.1 million outstanding under the FIF Loans as of December 31, 2022 and 2021, respectively.

NOTE 7 - INCOME TAXES

The Company is treated as a partnership for tax purposes and therefore not subject to U.S. federal income tax. The Company is subject to Texas Margins Tax. The Company also has a corporate subsidiary, Intuitive Aviation, Inc., that is subject to U.S. federal and state income taxes.

Beginning in 2022, the Tax Cuts and Jobs Act of 2017 (“TCJA”) eliminates the option to deduct research and development expenditures currently and requires taxpayers to capitalize and amortize them. Research and development expenses must be amortized over five years for research performed in the U.S. and 15 years for research performed outside the U.S. Although Congress is considering legislation that would defer the amortization requirement to later years, it is not certain that the provision will be repealed or otherwise modified. The legislation did not have an impact on the tax provision currently because of the Company’s status as a non-taxable entity; however, the Company will monitor this legislation.

On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was enacted into law. The IRA contains significant tax law changes, including a corporate alternative minimum tax ("CAMT") of 15% on adjusted financial statement income for applicable corporations, and a 1% excise tax on stock repurchases after December 31, 2022. The IRA also extends certain federal tax credits and creates new tax credits to promote sustainability initiatives. The IRA did not have a material impact on our consolidated financial statements.

In July 2020, the U.S. Treasury Department released final and proposed regulations on IRC Section 163(j) which limits business interest expense deductions. These regulations apply to tax years beginning January 1, 2021. However, taxpayers may choose to apply these regulations to tax years beginning after December 31, 2017. The Company adopted the final regulations for the year ended December 31, 2021. This did not result in any material impact to the provision.

The Company's consolidated income tax provision consisted of the following components (in thousands):

	Year Ended December 31, 2022	Year Ended December 31, 2021
Current:		
Federal	$ —	$ —
State	(16)	2
	$ (16)	$ 2
Deferred:		
Federal	—	—
State	(7)	—
	$ (7)	—
Total income tax provision	$ (23)	$ 2

The reconciliation of the income tax provision computed at the Company's effective tax rate is as follows (in thousands except for rates):

Years Ended December 31,	**2022**	**2021**
Loss before income taxes	$ (6,428)	$ (35,646)
Statutory income tax rates	21%	21%
Expected income tax benefit	$ (1,349)	$ (7,486)
Nontaxable entity	$ 1,348	$ 7,486
State income tax expense	$ (23)	$ 2
Change in valuation allowance	$ 1	$ —
Total income tax expense	$ (23)	$ 2

The Company's effective tax rates for the years ended December 31, 2022 and 2021 were (0.36)% and 0.01%, respectively. The difference between the Company's effective tax rate for the period ended December 31, 2022, and the U.S. statutory tax rate of 21% was primarily due to non-taxable income/(loss) passed through and taxable to our partners, a full valuation allowance recorded on the Company's net US deferred tax assets of Intuitive Aviation, and state taxes.

Significant components of the Company's deferred tax assets and liabilities related to Intuitive Aviation are as follows (in thousands):

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss	$ 165	$ 164
Property and equipment	11	11
Inventory	148	148
Deferred revenue	12	—
Total deferred tax assets	$ 336	$ 323
Valuation allowance	(324)	(323)
Net deferred tax assets	$ 12	$ —
Deferred tax liabilities:		
481(a) deferred revenue	(5)	—
Total deferred tax liabilities	$ (5)	$ —
Net deferred tax asset (liability)	$ 7	—

As of December 31, 2022, Intuitive Aviation had approximately $787 thousand of federal net operating loss carryforwards ("NOL carryforwards"), which do not have an expiration date. The Company's deferred tax assets, including these NOL carryforwards have been reduced by a valuation allowance due to a determination made that it is more likely than not that some or all of the deferred assets will not be realized based on the weight of all available evidence. The Company continues to closely monitor and weigh all available evidence, including both positive and negative, in making its determination whether to maintain a valuation allowance. As a result of the significant negative weight placed on the Intuitive Aviation's cumulative negative earnings position, the Company continued to maintain a valuation allowance against its remaining net deferred tax asset at December 31, 2022 and December 31, 2021.

The Company files income tax returns in the U.S., including federal and various state filings. The number of years that are open under the statute of limitations and subject to audit varies depending on the tax jurisdiction. We remain subject to U.S. federal tax examinations for years after 2018.

For the periods ending December 31, 2022, and 2021, the Company has no reserves for uncertain tax positions. The Company has elected to record interest and penalties associated with uncertain tax positions as general and administrative expenses.

NOTE 8 - SAFE AGREEMENTS

As of December 31, 2022, the Company received $4.3 million in proceeds from three new SAFE Agreements which were executed on January 4, 2022, January 5, 2022 and February 8, 2022 (the "New SAFE Agreements"). Proceeds from the New SAFE Agreements will be used to fund operations. The New SAFE Agreements are subject to the same terms and conditions as previous SAFE Agreements.

As of December 31, 2021, the Company received $13.0 million in cash related to two SAFE Agreements and 555,556 shares of Series X Convertible Preferred Stock of Intuitive Aviation valued at $1.5 million related to one SAFE Agreement. The SAFE Agreements were executed on September 29, 2021, November 4, 2021 and December 8, 2021. Cash proceeds from the SAFE were used to fund operations.

If an equity financing transaction event, pursuant to which the Company issues and sells preferred stock at a fixed valuation, occurs before the termination of the SAFE, the Company will issue preferred stock to the investor. On the initial close of the equity financing transaction, the SAFE will convert into the number of shares equal to the investment amount divided by either (i) the price per share equal to the valuation cap, as established in the SAFE, divided by the Company capitalization or (ii) 90% of the lowest price per share sold in the equity financing transaction, whichever calculation results in the greatest number of shares.

If a liquidity event, including a change of control, direct listing, or initial public offering, occurs before the termination of the SAFE, the investor will receive consideration equal to the greater of (i) the investment amount or (ii) the amount payable on the number of shares equal to the investment amount divided by the price per share as determined by taking the valuation cap (defined in the SAFE) divided by the Company capitalization.

In a dissolution event, as defined in the SAFE, the Company will pay the investor an amount equal to the purchase price, due and payable immediately prior to the consummation of the dissolution event.

As of December 31, 2022, the SAFE Agreements along with New SAFE Agreements had not yet converted as a qualifying financing event. Pursuant to the guidance under ASC 480, the Company determined that the SAFE agreements should be recorded as liabilities on the Company's balance sheet and should be initially and subsequently measured at fair value with the changes in fair value recognized in earnings.

NOTE 9 - MEMBERS' EQUITY

The Company has two classes of common equity, Class A Common Units ("Class A Units" or "Class A Unit Interests") and Class B Common Units ("Class B Units" or "Class B Unit Interests") which are held by Members.

Class A Unit Interests have all the rights, privileges, preferences, and obligations provided for in the amended and restated LLC Agreement dated May 25, 2021, which are generally consistent with an ordinary equity ownership interest. The Company is authorized to issue an unlimited number of Class A Unit Interests. The Class A Unit Interests of the Company are based upon the fair market value of the Company as a whole, at the time of monetary contribution. In accordance with the amended and restated LLC agreement, Class A Unit Interests increased by a multiple of one hundred thousand (100,000) or 1 to 100,000 unit split on May 25, 2021. The Class A members and their respective unit interests uniformly increased. Unless otherwise indicated, the number of Members' Units outstanding and per-unit amounts in these consolidated financial statements and accompanying notes have been retroactively adjusted to reflect the effect of the unit split. As part of the Unit Split, the par value of our Members' Units was adjusted from $1 per unit to $0.00001 per unit. As of December 31, 2022 and 2021, there were 122,505,500 and 122,500,000 Class A Units issued and outstanding, respectively.

(table amounts in thousands, except unit and per unit data)

Class B Unit Interests are non-voting interests and shall not have the right to approve, vote or take action on any issue requiring Member approval, Member voting or Member action as stated in the amended and restated LLC Agreement dated May 25, 2021. The Company is authorized to issue 6,125,000 of Class B Unit Interests. The Unit Interests of the Company are based upon the fair market value of the Company as a whole, at the date of purchase. As of December 31, 2022 and 2021, there were 5,500 and zero Class B Units issued and outstanding. Distributions (including liquidating distributions) are to be made to the Class A Unit Interest owners at a time to be determined by the Board of Managers. Member's profit and loss distributions are dispersed based on their allocated Class A Unit Interests. Each Member's equity account will be adjusted for distributions paid to the Member and additional capital contributions that are made by the Member. All revenues, costs and expenses of the Company are allocated to the Member in accordance with the LLC Agreements. Except as otherwise expressly agreed in writing, members of the Company are not personally liable for any obligations of the Company.

NOTE 10 - UNIT-BASED COMPENSATION

2021 Unit Option Plan

On May 25, 2021, the Company's board of directors adopted, and its members approved the 2021 Unit Option Plan, or the 2021 Plan. The 2021 Plan allows the Company to grant Incentive Unit Options to purchase Class B Unit Interests. Pursuant to the plan, up to 6,125,000 shares of Class B units have been reserved for issuance, upon exercise of the aforementioned Incentive Unit Options made to employees, directors and consultants.

Unit Option Activity

The following table sets forth the summary of unit option activity under the 2022 Plan:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)
Outstanding as of December 31, 2021	3,043,000	$ 1.00	6.4	(791,180)
Granted	550,000	4.81	9.9	—
Exercised	(5,500)	1.00	8.7	—
Forfeited/Cancelled	(234,500)	1.00	8.7	—
Balance as of December 31, 2022	3,353,000	$ 1.63	8.90	$ 10,643,900
Exercisable as of December 31, 2022	1,195,550	$ 1.00	8.71	$ 4,543,090

Aggregate intrinsic value represents the difference between the exercise price of the options and the estimated fair value of the Company's units determined by our Board of Directors for each of the respective periods.

(table amounts in thousands, except unit and per unit data)

The following table sets forth the summary of weighted-average grant-date fair value of unit options under the 2022 Plan:

	Weighted-Average Grant Date Fair Value
Non-vested as of December 31, 2021	$ 0.30
Granted	3.07
Vested	0.30
Forfeited	0.30
Non-vested as of December 31, 2022	$ 1.01

Unit-Based Compensation

Unit-based compensation expense was classified in the consolidated statement of operations under general and administrative expense. As of December 31, 2022, the Company had $1.6 million in estimated unrecognized unit-based compensation costs related to outstanding unit options that is expected to be recognized over a weighted average period of 1.90 years.

Valuation of Unit-Based Compensation Awards

The following weighted average assumptions were used to calculate the fair value of each unit option award under the Black-Scholes option pricing model:

	December 31,	
	2022	2021
Expected unit price volatility	65 - 70%	45.0%
Risk-free interest rate	2.9 - 3.6%	0.1%
Expected annual dividend yield	—%	—%
Expected term (years)	6.50	1.04

NOTE 11 - FAIR VALUE MEASUREMENTS

The following tables summarize the fair value of assets and liabilities that are recorded in the Company's consolidated balance sheets as of December 31, 2022 and 2021 at fair value on a recurring basis.

	December 31, 2022				
	Frequency of Measurement	Total	Level 1	Level 2	Level 3
Liabilities					
SAFE Agreement liabilities	Recurring	$ 18,314	$ —	$ —	$ 18,314
Total liabilities measured at fair value		$ 18,314	$ —	$ —	$ 18,314

(table amounts in thousands, except unit and per unit data)

	December 31, 2021				
	Frequency of Measurement	**Total**	**Level 1**	**Level 2**	**Level 3**
Liabilities					
SAFE Agreement liabilities	Recurring	$ 13,973	$ —	$ —	$ 13,973
Total liabilities measured at fair value		$ 13,973	$ —	$ —	$ 13,973

The following tables provides a rollforward of the Company's SAFE Agreement liabilities discussed in Note 8 - SAFE Agreements.

	December 31, 2022
Balance, beginning December 31, 2021	$ 13,973
Additions	4,250
Change in fair value	91
Balance December 31, 2022	$ 18,314

The fair value of the SAFE Agreements under the equity financing scenario is estimated using a Monte Carlo simulation approach. The fair value of the SAFE Agreements under the liquidity event and dissolution event scenarios is estimated based on the present value of the purchase amount.

The unobservable inputs used in the fair value measurement of the Company's SAFE Agreements are the probabilities of future scenarios, volatility, discount rate and risk-free rate. As of December 31, 2022, the probability of an equity financing was 0%, the probability of a liquidity event was 95% and the probability of a dissolution event was 5%. The value under the liquidity event and dissolution event scenarios is based on the present value of the purchase amount. The present value factors are estimated based on a 16.4% discount rate based on venture capital rates of return for December 31, 2022. The periods in which the scenarios are expected to occur for the liquidity event and dissolution events are 0.25 years and 1.0 year, respectively as of December 31, 2022.

As of December 31, 2021, the probability of an equity financing was 45.0%, the probability of a liquidity event was 50.0% and the probability of a dissolution event was 5.0%. As of December 31, 2021, the volatility utilized in the Monte Carlo simulation is 65.0%. The value under the liquidity event and dissolution event scenarios is based on the present value of the purchase amount. The present value factors are estimated based on a 9.6% discount rate based on venture capital rates of return for December 31, 2021. The periods in which the scenarios are expected to occur for the equity financing, liquidity event, and dissolution events are 0.5 years, 1.0 year, and 2.0 years, respectively as of December 31, 2021.

NOTE 12 - EARNINGS PER UNIT

Basic income (loss) per share is computed by dividing net income (loss) attributable to Class A Common Unit holders by the sum of the weighted-average number of units outstanding, representing 122,501,241 units and 122,500,000 for the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, there were no dilutive units outstanding.

As a result, the calculation of diluted income (loss) per unit was equal to the calculation of basic income (loss) per unit.

The following table presents net loss per unit and related information:

	Year Ended December 31,	
	2022	**2021**
	(in thousands, except per unit data)	
Basic and diluted:		
Net loss	$ (6,405)	$ (35,648)
Weighted-average common shares outstanding	122,501,241	122,500,000
Basic and diluted net loss per unit	$ (0.05)	$ (0.29)

NOTE 13 - RELATED PARTY TRANSACTIONS

Intuitive Machines, Intuitive Aviation, and Space Network Solutions have entered into recurring transaction agreements with certain related parties, including sales agreements and loan agreements.

Axiom Space, Inc.

For years ended December 31, 2022 and 2021, the Company had $1.6 million and $0.8 million, respectively, in revenue with Axiom Space, Inc. (“Axiom”) related to engineering services. As of December 31, 2022 and 2021, there were $0.8 million and $0.3 million, respectively, of affiliate accounts receivable related to Axiom. As of December 31, 2022, the affiliate accounts receivable balance has been fully reserved. Kamal Ghaffarian is a member of Management at Intuitive Machines and a member of Management at Axiom. Revenues related to Axiom are incurred in the normal course of business and amounts are settled under normal business terms.

IBX, LLC

For years ended December 31, 2022 and 2021, the Company had $2.1 million and $0.3 million, respectively, in expenses with IBX, LLC (“IBX”) related to management fees. As of December 31, 2022 and 2021, there were $0.4 million and $0.2 million, respectively, of affiliate accounts payable related to IBX expenses. Kamal Ghaffarian is a member of Management at Intuitive Machines and a member of Management at IBX. Expenses related to IBX are incurred in the normal course of business and amounts are settled under normal business terms.

KBR, Inc.

On November 12, 2020, KBR, Inc. (“KBR”) made an initial capital contribution in SNS resulting in a 10% ownership of SNS, previously a wholly owned subsidiary of the Company. For years ended December 31, 2022 and 2021, the Company had $1.9 million and $1.3 million, respectively, in affiliate revenue with KBR related to engineering services. As of December 31, 2022 and 2021, there was $0.3 million and $0.2 million, respectively, of affiliate accounts receivable related to KBR revenue. Revenues related to KBR are incurred in the normal course of business and amounts are settled under normal business terms.

X Energy, LLC

As of December 31, 2022 and 2021, there were $0.1 million and $0 million, respectively, of affiliate accounts payable related to X Energy expenses. Expenses related to X Energy are incurred in the normal course of business and amounts are settled under normal business terms.

Penumbra, LLC

For years ended December 31, 2022 and 2021, the Company had $0.1 million and $0.2 million, respectively, in expenses with Penumbra, LLC (“Penumbra”) related to license fees. Certain members of executive management at Intuitive Machines have an ownership interest in Penumbra. Expenses related to Penumbra are incurred in the normal course of business.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. The Company applies accounting for contingencies to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, the Company discloses contingencies deemed to be reasonably possible and accrues loss contingencies when, in consultation with legal advisors, it is concluded that a loss is probable and reasonably estimable. While the resolution of these legal proceedings and claims cannot be predicted with certainty, management believes the outcome of such matters will not have a material adverse effect on our consolidated financial statements.

NOTE 15 - VARIABLE INTEREST ENTITY

The Company determines whether joint ventures in which it has invested meet the criteria of a variable interest entity or “VIE” at the start of each new venture and when a reconsideration event has occurred. A VIE is a legal entity that satisfies any of the following characteristics: (a) the legal entity does not have sufficient equity investment at risk; (b) the equity investors at risk as a group, lack the characteristics of a controlling financial interest; or (c) the legal entity is structured with disproportionate voting rights.

The Company consolidates a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

IX, LLC Joint Venture

The Company participates in the IX, LLC joint venture (“IX LLC JV”) with X-energy, LLC (X-energy), a nuclear reactor and fuel design engineering company, developing high-temperature gas cooled nuclear reactors and fuel to power them. We hold a 51% interest in the IX LLC JV and X-energy holds a 49% interest. The co-founder and executive chairman of Intuitive Machines is also the co-founder and current member of management of X-energy. Intuitive Machines and X-energy are common controlled entities. We have determined that IX, LLC JV is a variable interest entity and Intuitive Machines is the primary beneficiary because it is most closely associated with the activities of the joint venture. Therefore, we consolidate this VIE for financial reporting purposes.

The IX LLC JV was formed to pursue nuclear space propulsion and surface power systems in support of future space exploration goals. In the third quarter of 2022, the IX LLC JV received an award from Battelle Energy Alliance (“BAE”) to design a fission power system that can operate on the surface of the Moon to support sustained lunar presence and exploration of Mars. As of December 31, 2022, the IX LLC JV had total assets of $1.3 million and total liabilities of $1.3 million associated with project execution activities subcontracted to the JV partners and other third parties.

NOTE 16 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information consists of the following (in thousands):

	Year Ended December 31,	
	2022	2021
Supplemental cash flow information:		
Cash paid for interest, net	$ 1,013	$ 230
Cash paid for Texas margin tax	$ —	$ —
Accrued capital expenditures	$ (38)	$ —

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring after the date of the financial statements but before the financial statements were issued on March 30, 2023 to determine if there were any such events or transactions that require potential adjustment to or disclosure in the consolidated financial statements. The Company has concluded that all such events that would require adjustment or disclosure have been recognized or disclosed.

Business Combination with Inflection Point Acquisition Corp.

On February 13, 2023 (the “Closing Date”), Intuitive Machines, Inc. (formerly Inflection Point Acquisition Corp. or “IPAX”) and the Company consummated the previously announced transactions contemplated by that certain Business Combination Agreement (the “Business Combination”), whereby the Company issued certain equity securities to Intuitive Machines, Inc. and appointed Intuitive Machines, Inc. as its managing member in exchange for voting equity securities of Intuitive Machines, Inc. (without economic rights) issued or to be issued to the Company’s existing members prior to the Closing Date. In addition, Intuitive Machines, Inc. contributed approximately $34.1 million in available closing cash to the Company after redemptions of shares by shareholders of IPAX prior to the Closing Date. As a result of the transaction, substantially all of the assets and business of the combined entities are held by the Company. The Business Combination was accounted for as a common control transaction with respect to the Company which is akin to a reverse capitalization, with no goodwill or other intangible assets recorded. Under this method of accounting, IPAX was treated as the “accounting acquiree” and the Company as the “accounting acquirer” for financial reporting purposes. Accordingly, for accounting purposes, the Business Combination was treated as the equivalent of the Company issuing shares for the net assets IPAX, followed by a recapitalization.

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

You should read the following discussion and analysis of Intuitive Machines' financial condition and results of operations together with Intuitive Machines' audited consolidated financial statements and notes thereto and consolidated financial statements and notes thereto included elsewhere in this Current Report on Form 8-K (this "Current Report"). Certain of the information contained in this discussion and analysis or set forth elsewhere in this Current Report on Form 8-K, including information with respect to plans and strategy for Intuitive Machines' business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the section "Risk Factors", Intuitive Machines' actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. You should carefully read the section entitled "Risk Factors" to gain an understanding of the important factors that could cause actual results to differ materially from Intuitive Machines' forward-looking statements. Please also see the section entitled "Cautionary Note Regarding Forward-Looking Statements."

Unless otherwise indicated for the context otherwise requires, references in this section to the "Company," "we," "us,", "IM," "Intuitive Machines," or "our" refer to the business of the Intuitive Machines LLC and their subsidiaries.

Overview

We are a diversified space company initially focused on establishing the lunar infrastructure and basis for commerce to inform and sustain human presence off Earth. We believe our business is well positioned for continued growth and expansion:

- <u>Right Now</u>: Servicing NASA and a worldwide set of commercial payload customers, working to provide access to the lunar surface, cislunar space and data transmission for science, technology, and infrastructure.

- <u>Tomorrow</u>: Working to provide a thriving, diverse lunar economy, creating new opportunities and markets to enable on-orbit applications, a permanent presence on the Moon, and expand the commercial space exploration marketplace.

We are working to provide access to the lunar surface and collect and transmit cislunar data for science, technology, and infrastructure. As of December 31, 2022, we are one of a select few companies servicing NASA and a worldwide set of commercial payload customers. We believe we have a strong position with a first mover advantage, as evidenced by three CLPS awards to date, more than any of our competitors, as of December 31, 2022. Intuitive Machines' Nova-C lander is intended to become the first U.S. vehicle to softly land on the lunar surface since 1972 and will become the first object to land at the lunar South pole in human history. The lander is capable of carrying 130 kilograms of cargo and is designed to execute numerous experiments and technology demonstrations to the lunar surface in 2023 under the IM-1 missions. Our goal is for these missions to be followed up by IM-2, which will continue to execute experiments and technology demonstrations, and IM-3, our third CLPS award which will land at Reiner Gamma. These missions, along with additional expeditions, are in partnership with NASA, Nokia Corporation, SpaceFlight, Inc., Columbia Sportswear Company, Aegis Aerospace, Inc. and other commercial players.

Intuitive Machines offers its customers the flexibility needed to pioneer a thriving, diverse lunar economy and to enable a permanent presence on the Moon.

Our Business Model

We primarily generate revenues through our contracts with customers of our lunar access services and by collecting and transmitting cislunar data for science, technology and infrastructure in our Space Products and infrastructure services. We are a provider and supplier of space products/infrastructure and services that enable sustained robotic and human exploration in lunar orbit and on the Moon's surface.

We employ a “land-and-expand” go-to-market strategy with the goal to deliver increasing value and repetitive revenues with each customer over time by expanding the scope of the services we offer. We work closely with our customers and partners to enable their early success. We expect that deeper adoption of our products and services from our customers will come in many forms, including increased reliance on our technology as a core part of a mission, increased usage of our landers for lunar transportation and exploration, and greater dependence on our advanced software analytics capabilities for satisfying each customers’ needs.

Our products and services are offered through our four business units: Lunar Access Services, Orbital Services, Lunar Data Services and Space Products and Infrastructure. Under ASC 280 “Segment Reporting” we concluded that our business units operate as one reportable segment.

Lunar Access Services

Our Lunar Access Services business unit is focused on using our proprietary lunar lander vehicles to service CLPS contracts to fly NASA scientific equipment to the lunar surface and support experiments. We also have a robust and growing set of commercial customers pursuing R&D and technology maturation efforts aimed at capturing the growing cislunar economy. This service includes softly landing on the lunar surface while carrying significant cargo loads, ferrying numerous experiments to the lunar surface, deploying the first drill to test for water ice on the Moon and deploying drones to test Long Term Evolution networks.

Orbital Services

Our Orbital Services business unit is focused on servicing missions and developing technologies that enable services such as satellite delivery/ride-share, satellite servicing and refueling, space station servicing, satellite repositioning, and orbital debris removal. We leverage the synergies from our trans-lunar injection launches for lunar access services to provide unique orbital trajectories to our ride-share customers, differentiated from competitive offerings. Our Orbital Services business unit mainly supports satellites and stations in Earth’s and the Moon’s orbit.

Lunar Data Services

Our Lunar Data Services business unit leverages our six strategically positioned ground stations across Earth to offer continuous lunar coverage, facilitating secure lunar communications, navigation, and imagery. It will be further enhanced with the deployment of our lunar communications relay, beginning in 2023. Providing lunar data services allows us to provide lunar network services to NASA and Space Force, which we believe will be an increasingly important priority given China’s recent declaration that they intend to build their own lunar satellite network and manned lunar habitat.

Space Products and Infrastructure

Our Space Products and Infrastructure business unit is focused on developing and commercializing propulsion systems, navigation systems, lunar mobility vehicles such as rovers and drones, power infrastructure, and human habitation systems. With extensive additive manufacturing capabilities, including an in-house composites shop and robust machine shop, we believe we have the capabilities and expertise required to rapidly manufacture on-demand prototypes, development parts, flight units, and spares with a focus on producing small series and high-quality serial productions of metal components utilizing additive manufacturing. We also serve as the prime contractor and partner on NASA center support contracts that expand our relationship with NASA and emphasizes our capabilities in key technology focus areas. Additionally, we believe this business unit allows us to expand into prime positions on payload contracts with NASA and other customers.

Recent Developments

Inflation

Although inflation in the United States has been relatively low in recent years, it rose significantly in the second half of 2021 and continued to rise in 2022, as a result of the economic impact from the COVID-19 pandemic, including the global supply chain disruptions, government stimulus packages, rising costs of commodities and geopolitical conflicts. In addition, global and industry-wide supply chain disruptions caused by the COVID-19 pandemic have resulted in shortages in labor, materials and services. Such shortages have resulted in inflationary cost increases for labor, materials and services and could continue to cause costs to increase, as well as a scarcity of certain products and raw materials. While rising costs and other inflationary pressures have not had a material impact on our business to date, we are monitoring the situation and assessing its impact on our business, including to our partners and customers.

Key Factors Affecting Our Performance

We believe that our future success and financial performance depend on several factors that present significant opportunities for our business, but also pose risks and challenges, including those discussed below and in the section of the proxy statement/prospectus filed with the Securities and Exchange Commission (the "SEC") on January 20, 2023 (the "Proxy Statement/Prospectus") titled "Risk Factors."

Our ability to commence and expand spaceflight mission operations

Our success will depend in large part on our ability to commence and expand our lunar mission operations in 2023 and beyond. We are on track to complete our first two missions in 2023 with a goal of establishing a regular cadence of multiple missions per year of increasing size and complexity by 2025. This will provide our customers with proven and reliable cislunar access, with which to plan their future manifest. With binding agreements for 3 launches as of December 31, 2022, we have $201.9 million in backlog, and we are in active discussions with numerous potential customers, including government agencies and private companies, to potentially add to our contracted revenues.

Prior to commencing missions, we must complete internal integration activities as well as launch vehicle integration with our launch provider, SpaceX. Any delays in commencing our missions, including due to delays or cost overruns in obtaining FCC licenses or other regulatory approvals, could adversely impact our results and growth plans. As we improve production efficiency and schedule reliability and reach our target of multiple missions per year manifested 2-3 years in advance, we expect to improve our market penetration, which we believe will lead to higher revenue from both volume and mission complexity as well as increased operating leverage.

Our ability to expand our product and services offerings

We are in the preliminary stages of developing our full space infrastructure. These services are expected to grant customers access to cislunar space and the lunar surface at lower price points than previous lunar missions. We are also working to provide data transmission services at lunar distance to include far-side connectivity, along with ancillary services that are likely to include orbital servicing and payload development and manufacture.

Our growth opportunity is dependent on our ability to win lunar missions and expand our portfolio of services. Our ability to sell additional products and services to existing customers is a key part of our success, as follow-on purchases indicate customer satisfaction and decrease the likelihood of competitive substitution. To sell additional products and services to new and existing customers, we will need to continue to invest significant resources in our products and services as well as demonstrate reliability through a successful lunar landing. If we fail to make the right investment decisions, if customers do not adopt our products and services, or if our competitors are able to develop technology or products and services that are superior to ours, our business, prospects, financial condition and operating results could be adversely affected.

We expect to make significant investments in our lunar and data programs in the short term. Although we believe that our financial resources, including the proceeds of the Business Combination and the related private placement, will be sufficient to meet our capital needs, our timeline and budgeted costs for these offerings are subject to substantial uncertainty, including due to compliance requirements of U.S. federal export control laws and applicable foreign and local regulations, the impact of political and economic conditions, and the need to identify opportunities and negotiate long-term agreements with customers for these services, among other factors.

Ability to improve profit margins and scale our business

The growth of our business is dependent on our ability to improve our profit margins over time while successfully scaling our business. We intend to continue investing in initiatives to improve our operating leverage and significantly increase utilization. Our ability to achieve our production-efficiency objectives could be negatively impacted by a variety of factors including, among other things, lower-than-expected facility utilization rates, manufacturing and production cost overruns, increased purchased material costs and unexpected supply-chain quality issues or interruptions. If we are unable to achieve our goals, we may not be able to increase operating margin, which would negatively impact gross margin and profitability.

Ability to continue to capitalize on government expenditures and private enterprise investment in the space economy

Our future growth is largely dependent on our ability to continue to capitalize on increased government spending and private investment in the space economy. From 2019 to 2022, the U.S. government increased its space exploration and development budget by approximately 11.7%, or $2.5 billion. Government expenditures and private enterprise investment has fueled our growth in recent years, as it has resulted in our continued ability to secure increasingly valuable contracts for products and services. We expect the continued availability and growth of government expenditures and private investment in the space economy will continue to result in increased purchases of our products and services.

Our ability to continue to innovate

We design, build, and test our landers, spacecraft and subsystems in-house and operate at the forefront of composite structures, liquid rocket engines, guidance, navigation and control software, precision landing and hazard avoidance software, and advanced manufacturing techniques. We believe the synergy of these technologies enables greater responsiveness to the commercial and government requirements for lunar exploration. To continue establishing market share and attracting customers, we plan to continue to make substantial investments in research and development for the continued enhancements of our landers and other space systems. Over time, we expect our research and development expenditures to continue to grow on an absolute basis, but remain consistent or decrease as a percent of our total revenues as we expand our service offerings.

Impact of COVID-19

The coronavirus (COVID-19) pandemic has not materially affected our future growth outlook. Our main source of revenue during the COVID-19 pandemic was NASA contracts, which were not materially affected by the pandemic. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on various future developments, including the duration and spread of any new outbreak on our suppliers and employees, all of which is uncertain at this time.

Key Business Metrics and Non-GAAP Financial Measures

We monitor the following key business metrics and non-GAAP financial measures that assist us in evaluating our business, measuring our performance, identifying trends and making strategic decisions.

Backlog

We define backlog as our total estimate of the revenues we expect to realize in the future as a result of performing work on awarded contracts, less the amount of revenue we have previously recognized. We monitor our backlog because we believe it is a forward-looking indicator of potential sales which can be helpful to investors in evaluating the performance of our business and identifying trends over time. We generally include total expected revenues in backlog when a contract is awarded by the customer under a legally binding agreement. Our backlog does not include any estimate of future potential orders that might be awarded under government-wide acquisition contracts, agency-specific indefinite delivery/indefinite quantity contracts or other multiple-award contract vehicles, nor does it include option periods that have not been exercised by the customer. Due to government procurement rules, in certain cases revenues included in backlog are subject to budget appropriation or other contract cancellation clauses. Nearly all contracts allow customers to terminate the agreement at any time for convenience. If any of our contracts with firm orders were to be terminated, our backlog would be reduced by the expected value of the unfilled orders of such contracts. Consequently, our backlog may differ from actual revenues recognized in our financial statements.

The following table presents our backlog as of the periods indicated:

(in thousands)	December 31, 2022	December 31, 2021
Backlog	$ 201,946	$ 180,787

Orders comprising backlog as of a given balance sheet date are typically invoiced in subsequent periods. As of December 31, 2022, we expect to recognize approximately 71% of our backlog over the next 12 months, approximately 5% over the subsequent twelve months and the remaining 24% thereafter. Our backlog could experience volatility between periods, including as a result of customer order volumes and the speed of our fulfilment, which in turn may be impacted by the nature of products and services ordered, the amount of inventory on hand to satisfy orders and the necessary development and manufacturing lead time required to satisfy certain orders.

Backlog increased by $21.2 million as of December 31, 2022 compared to December 31, 2021, primarily due to new awards totaling $106.7 million for various lunar payload and engineering services contracts during the period. The increase was partially offset by continued performance on existing contracts.

As of December 31, 2022, our backlog of $201.9 million exceeded our remaining performance obligations of $101.4 million as reported in Note 3 - Revenue to our consolidated financial statements as of and for twelve months ended December 31, 2022. The difference of $100.5 million was primarily related to $45.5 million of variable consideration associated with constrained revenue as well as $55.0 million in backlog related to the funded value of certain time and materials service contracts where revenue is recognized when services are performed and contractually billable and therefore not included in remaining performance obligations. As of December 31, 2021, our backlog of $180.8 million exceeded our remaining performance obligations of $140.8 million as reported in Note 3 - Revenue to our audited consolidated financial statements for the year ended December 31, 2021. The difference of $40.0 million was primarily related to $28.4 million of variable consideration associated with constrained revenue as well as $11.6 million in backlog related to the funded value of certain time and materials service contracts where revenue is recognized when services are performed and contractually billable and therefore not included in remaining performance obligations.

Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA is a key performance measure that our management team uses to assess our operating performance. We calculate Adjusted EBITDA as net income (loss) excluding results from non-operating sources including interest income, interest expense, gain on extinguishing of debt, share based compensation, change in fair value instruments, depreciation, and provision for income taxes.

We present Adjusted EBITDA because we believe it is helpful in highlighting trends in our operating results and because it is frequently used by analysts, investors, and other interested parties to evaluate companies in our industry.

Adjusted EBITDA has limitations as an analytical measure, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect interest income, interest expense or other non-operating gains and losses, which may represent an increase to or reduction in cash available to us;
- Adjusted EBITDA does not consider the impact of share-based compensation expense, which is expected to continue to be part of our compensation strategy;
- Adjusted EBITDA does not consider the impact of gain on extinguishing debt or change in fair value of SAFE that we do not consider to be routine in nature for the ongoing financial performance of our business;
- Adjusted EBITDA excludes non-cash charges for depreciation of property and equipment, and although the assets being depreciated may have to be replaced in the future, Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; and
- Adjusted EBITDA does not reflect provisions for income taxes, which may represent a reduction in cash available to us.

Other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure. Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results.

The following table presents a reconciliation of net loss, the most directly comparable financial measure presented in accordance with GAAP, to Adjusted EBITDA.

	Year Ended December 31,	
(in thousands)	**2022**	**2021**
Net loss	$ (6,405)	$ (35,648)
Adjusted to exclude the following:		
Taxes	(23)	2
Depreciation	1,072	840
Interest expense (income), net	836	224
Gain on extinguishment of debt	—	(1,806)
Share-based compensation	624	318
Change in fair-value of SAFE	91	(527)
Other expense (income), net	(6)	(133)
Adjusted EBITDA	$ (3,811)	$ (36,730)

Free Cash Flow

We define free cash flow as net cash (used in) provided by operating activities less purchases of property and equipment. We believe that free cash flow is a meaningful indicator of liquidity that provides information to management and investors about the amount of cash generated from operations that, after purchases of property and equipment, can be used for strategic initiatives, including continuous investment in our business and strengthening our balance sheet.

Free Cash Flow has limitations as a liquidity measure, and you should not consider it in isolation or as a substitute for analysis of our cash flows as reported under GAAP. Some of these limitations are:

- Free Cash Flow is not a measure calculated in accordance with GAAP and should not be considered in isolation from, or as a substitute for financial information prepared in accordance with GAAP.

- Free Cash Flow may not be comparable to similarly titled metrics of other companies due to differences among methods of calculation.

- Free Cash Flow may be affected in the near to medium term by the timing of capital investments, fluctuations in our growth and the effect of such fluctuations on working capital and changes in our cash conversion cycle.

The following table presents a reconciliation of net cash (used in) provided by operating activities, the most directly comparable financial measure presented in accordance with GAAP, to free cash flow:

	Year Ended December 31,	
(in thousands)	**2022**	**2021**
Net cash provided by (used in) by operating activities	784	(16,568)
Purchases of property and equipment	(16,405)	(3,176)
Free cash flow	(15,621)	(19,744)

	Year Ended December 31,	
(in thousands)	**2021**	**2020**
Net cash (used in) provided by operating activities	(16,568)	8,150
Purchases of property and equipment	(3,176)	(2,554)
Free cash flow	$ (19,744)	$ 5,596

Components of Results of Operations

Revenues

Most of our revenues are derived from long-term contracts for the delivery of payloads to the lunar surface. In order to satisfy these contracts we undertake the engineering for the research, design, development, manufacturing, integration and sustainment of advanced technology space systems. The integration of these technologies and systems lead to an organic and integrated capability to provide lunar access on a commercial services basis. Individual contracts are aggregated by mission (e.g., IM-1, IM-2, IM-3) for management purposes. Revenue is measured based on the amount of consideration specified in a contract with the customer.

We recognize revenue when we transfer control of a promised good or service to a customer in an amount that reflects the consideration we expect to be entitled to in exchange for the good or service. Under the overtime revenue recognition model, revenue and gross profit are recognized over the contract period as work is performed based on actual costs incurred and an estimate of costs to complete and resulting total estimated costs at completion.

Revenues from long-term contracts can fluctuate from period to period largely based on the stage of the project and overall mission. These projects will typically have a ramp up period in the beginning stage and wind down as the mission nears launch date. A significant portion of the revenues (approximately 10% of the contract price) contains variable considerations which is constrained to nil for accounting purposes as it is dependent on a successful mission landing. This may cause fluctuations in future revenues, profits and cash flows.

We perform work under contracts that broadly consist of fixed-price, cost-reimbursable, time-and-materials or a combination of the three. Pricing for all customers is based on specific negotiations with each customer. For a description of our revenue recognition policies, see the section titled "- Critical Accounting Policies and Estimates - Revenue Recognition". A small portion of our revenues are generated from engineering services which are time-and-material type contracts. Going forward, cost-reimbursable contracts may constitute a material portion of our revenues.

Cost of revenues (excluding depreciation)

Cost of revenues (excluding depreciation) consists primarily of direct material and labor costs, launch costs, manufacturing overhead, other personnel-related expenses, which include salaries, bonuses, benefits and stock-based compensation expense and freight expense. Cost of revenues also includes charges to write-down the carrying value of inventory when it exceeds its estimated net realizable value, including on-hand inventory that is either obsolete or in excess of forecasted demand. We expect our cost of revenues to increase in absolute dollars in future periods as we sell more products and services. As we grow into our current capacity and execute on cost-optimization initiatives, we expect our cost of revenues as a percentage of revenues to decrease over time.

Depreciation

Depreciation consists of the depreciation of tangible fixed assets for the relevant period based on the straight-line method over the useful life of the assets. Tangible fixed assets include property and equipment.

General and administrative expense (excluding depreciation)

Selling, general and administrative expense (excluding depreciation) consist primarily of personnel-related expenses for our sales, marketing, supply chain, finance, legal, human resources and administrative personnel, as well as the costs of customer service, information technology, professional services, insurance, travel, allocated overhead and other marketing, communications and administrative expenses. We expect to invest in our corporate organization and incur additional expenses associated with transitioning to, and operating as, a public company, including increased legal and accounting costs, investor relations costs, higher insurance premiums and compliance costs. As a result, we expect that selling, general and administrative expenses will increase in absolute dollars in future periods as a percentage of total revenues.

Interest income (expense), net

Interest income (expense), net consists of interest income earned on cash and cash equivalents and short-term investment balances held by us in interest bearing time deposit accounts. Interest expense is incurred on long-term debt.

Gain on extinguishment of debt

Gain on extinguishing of debt consists of forgiveness of a loan from the U.S. Treasury Department's Small Business Administration under their Payroll Protection Plan (the "**PPP Loan**").

Change in fair value of SAFE Agreements

As of December 31, 2022, we had received $17.3 million in cash related to SAFE Agreements. The SAFE Agreements were executed from September 2021 through February 2022. One SAFE Agreement was executed in December 2021 with minority shareholders in Intuitive Aviation in a non-cash exchange for their 10% noncontrolling interest in that entity with a fair value of $1.5 million. Proceeds from the SAFE Agreements were used to fund operations and purchase the initial cislunar communications satellite.

As of December 31, 2022, the agreements had not yet converted as a qualifying financing event under the SAFE Agreements had not yet occurred. Pursuant to the guidance under ASC 480, we determined that the SAFE agreements should be recorded as liabilities on our balance sheet and should be initially and subsequently measured at fair value with the changes in fair value recognized in earnings.

Other Income, net

Other income, net consists of miscellaneous income sources such as insurance proceeds from stolen equipment.

Income tax expense

We have elected to be treated as a partnership for income tax purposes. Partnerships are not subject to U.S. federal income taxes. Rather, the partnership's taxable income flows through to the owners, who are responsible for paying the applicable income taxes on the income allocated to them. Accordingly, no provision for federal income taxes has been recorded for the Company. However, the Company is subject to Texas Margin Taxes.

Results of Operations

The following tables set forth our results of operations for the periods presented and expresses the relationship of certain line items as a percentage of revenues for those periods. The period-period comparison of financial results is not necessarily indicative of future results:

Comparison of years ended December 31, 2022 and 2021

The following tables set forth our historical results for the periods indicated, and the changes between periods:

	Year Ended December 31,			
(in thousands)	**2022**	**2021**	**$ Change**	**% Change**
Revenues	$ 85,946	$ 72,550	$ 13,396	18%
Operating expenses:				
Cost of revenues (excluding depreciation)	75,513	100,307	(24,794)	(25)
Depreciation	1,072	840	232	28
General and administrative expense (excluding depreciation)	14,868	9,291	5,577	60
Total operating expenses	91,453	110,438	(18,985)	(17)
Operating Loss	(5,507)	(37,888)	32,381	(85)
Other income, net				
Interest expense, net	(836)	(224)	(612)	273
Gain on extinguishment of debt	—	1,806	(1,806)	(100)
Change in fair value of SAFE Agreements	(91)	527	(618)	100
Other income, net	6	133	(127)	(95)
Total other (expense) income, net	(921)	2,242	(3,163)	(141)
Loss before income taxes	(6,428)	(35,646)	29,218	(82)
Income tax expense	23	(2)	25	*
Net loss	(6,405)	(35,648)	29,243	(82)%

* *not meaningful*

Revenues

Revenues for the years ended December 31, 2022 and 2021 were primarily impacted by NASA and other commercial payload contracts associated with the IM-1, IM-2 and IM-3 missions. The following provides a summary of the material contracts and estimated launch dates for each mission impacting our results of operations (contract revenues exclude variable consideration that is constrained):

The NASA payload contract for the IM-1 mission was awarded in June 2019 with an initial targeted mission launch date in March 2022. Total IM-1 mission estimated revenues under NASA and other commercial fixed-priced contracts increased to $117.9 million as of December 31, 2022 as a result of contract modifications. Two new commercial payload contracts totaling $2.0 million were awarded in late 2021 bringing the total mission estimated revenues to $94.8 million as of December 31, 2021. During the fourth quarter of fiscal year 2021, the targeted mission launch date was revised to December 2022. During the third quarter of 2022, the targeted mission launch date was further revised to March 2023. During the fourth quarter of 2022, we received a modification on the IM-1 NASA payload contract selecting the lunar South Pole as the new target landing site which resulted in an increase in IM-1 mission estimated revenues of approximately $23.1 million.

The initial NASA payload contract for the IM-2 mission was awarded in October 2020 with a targeted mission launch date in December 2022. Total IM-2 mission estimated revenues under NASA and other commercial fixed-priced contracts increased to $106.0 million as of December 31, 2022 as a result of two new commercial payload contracts awarded in the third quarter of 2022. The targeted mission launch date for the IM-2 mission was revised from December 2022 to October 2023 to accommodate the delays in the IM-1 mission launch date noted above.

The initial NASA payload contract for the IM-3 mission was awarded in November 2021 with an initial targeted mission launch date in April 2024. During the fourth quarter of 2022, the targeted mission launch date was revised to May 2024. Total IM-3 mission estimated revenues under fixed-priced contracts is $78.8 million as of December 31, 2022.

Revenues increased by $13.4 million, or 18%, for the year ended December 31, 2022 compared to the same period in 2021. Revenues on the IM-1 mission increased approximately $10.1 million from $24.9 million in 2021 to $35.0 million for the year ended December 31, 2022. Revenue increased in 2022 primarily due to the increase in estimated revenues resulting from the change in the IM-1 target landing site to the lunar South Pole partially offset by lower progress towards completion in 2022 as well as the delay of the targeted launch date from December 2022 to March 2023. Revenues on the IM-2 mission decreased approximately $15.3 million from $41.0 million for the year ended 2021 to $25.7 million in 2022. The revenue decrease on the IM-2 mission was primarily due to lower progress towards completion during the year ended 2022 as compared to 2021. As of December 31, 2022, the IM-1 and IM-2 missions were approximately 96% and 70% complete, respectively. Revenues from the IM-3 mission increased approximately $16.9 million from $2.9 million in 2021 to $19.8 million for the year ended December 31, 2022 due to progress towards completion. The IM-3 mission was awarded in the fourth quarter of 2021 and was approximately 33% complete as of December 31, 2022.

Operating Expenses

Cost of revenues (excluding depreciation)

Cost of revenues decreased by $24.8 million, or 25%, for the year ended December 31, 2022 compared to the same period in 2021. Cost of revenues on the IM-1 mission declined by $11.1 million due to lower production activity as a result of the change in estimated launch date from December 2022 to March 2023. On the IM-2 mission, cost of revenues were approximately $6.7 million lower during the year ended December 31, 2022 due to overall lower production activity as compared to the prior year as a result of the change in estimated launch date from December 2022 to October 2023. IM-3 mission cost of revenues increased approximately $20.0 million primarily related to launch service costs given that the IM-3 mission was awarded in the fourth quarter of 2021.

As of December 31, 2022, all three of our lunar missions are in loss positions. The IM-1 became a loss contract in 2019 primarily as a result of constrained variable consideration. For the years ended December 31, 2022 and 2021, IM-1 mission accrued losses decreased by $11.3 million and increased by $12.2 million, respectively. The modification to the IM-1 NASA payload contract associated with the new lunar South Pole targeted landing site resulted in a $20.7 million favorable change in 2022 to the previously accrued loss and was partially offset by $9.4 million unfavorable changes to the previously accrued loss due to increases in labor and material costs during the construction of our proprietary lunar lander. The unfavorable change in 2022 was primarily associated with certain elements of our fuel systems and avionics and were also the primary drivers of the unfavorable changes in accrued losses in 2021. Additionally, we have included additional labor costs and estimated penalties from our mission launch service provider in our cost estimates at completion as a result of extending the mission launch date to March 2023. We recognized a contract loss during the year ended December 31, 2022 on the IM-2 missions as a result of increasing our estimated costs associated with fuel systems and avionics based on our evaluation and consideration of issues encountered on the IM-1 mission. Additionally, our estimated costs for penalties from our launch service provider were increased due to the change in mission launch date to October 2023. Favorable contract changes on the IM-3 mission resulted in a reversal of approximately $4.7 million in previous losses accrued on our IM-3 mission as a result of reductions to estimated labor and materials. The IM-3 estimated cost reductions were largely driven based on our successful resolution to challenges on the other missions and alignment of our cost estimates to a more predictable production model.

General and administrative expense (excluding depreciation)

General and administrative expense (excluding depreciation) increased by $5.6 million, or 60%, for the year ended December 31, 2022 compared to the same period in 2021 primarily due to an increase in expenditures related to an increase in headcount to support various corporate functions at a cost of $1.9 million. There was also an increase in expense related to bids & proposals of $0.5 million and the allowance for expected credit losses of $0.8 million. Increase in other expenses of $2.4 million were related to software licenses, professional fees, unit-based compensation and other miscellaneous administrative costs.

Depreciation

Depreciation increased by $0.2 million, or 28%, for the year ended December 31, 2022 compared to the same period in 2021 primarily due to an increase in depreciation charges related to computer and office equipment and building and leasehold improvements.

Other (expense) income, net

Other income, net decreased by $3.2 million, or 141% for the year ended December 31, 2022 compared to the same period in 2021. The decrease was primarily due to a $1.8 million gain on extinguishment of debt that occurred in 2021 and reflects forgiveness by the U.S. Treasury Department's Small Business Administration under their Payroll Protection Plan for the PPP Loan we incurred in 2020. Other (expense) income, net also decreased due to interest expense of $0.8 million on the Credit Mobilization Credit Facility Line of Credit ("Credit Mobilization Facility") in 2022 as compared to $0.2 million in 2021.

Liquidity and Capital Resources

Since inception, we have funded our operations through internally generated cash on hand, proceeds from sales of our capital stock including the execution of SAFE agreements, and our proceeds from the issuance of bank debt. We assess our liquidity in terms of our ability to generate adequate amounts of cash to meet current and future needs. Our expected primary uses of cash on a short and long-term basis are for working capital requirements, capital expenditures, debt service requirements and other general corporate services. Our primary working capital requirements are for project execution activities including purchases of materials, subcontracted services and payroll which fluctuate during the year, driven primarily by the timing and extent of activities required on new and existing projects. Our capital expenditures are primarily related to machinery and equipment, computers and software, and leases.

As of December 31, 2022, the Company had cash and cash equivalents of $25.8 million and a working capital deficit of $53.5 million. The Company has historically funded its operations through internally generated cash on hand, proceeds from sales of our capital stock including the execution of SAFE agreements, and proceeds from the issuance of bank debt.

As further described in Note 17 of our audited consolidated financial statements elsewhere in this Current Report on Form 8-K, on February 13, 2023, as contemplated by the business combination agreement entered into as of September 16, 2022, the Company and Intuitive Machines, Inc. (formerly Inflection Point Acquisition Corp. or "IPAX") consummated the business combination to effect the merger of the Company and IPAX. Upon the close of the business combination, the Company received approximately $34.1 million of gross proceeds to fund operations. Additionally, as a result of the close, the Company entered into a common stock purchase agreement relating to an equity facility under which the Company may direct the counterparty to purchase up to $50 million of newly issued common stock subject to certain requirements and limitations.

Management believes that the cash available from the consummation of the business combination and related transactions will be sufficient to fund the short-term liquidity needs and the execution of the business plan through at least the twelve-month period from the date the financial statements are issued.

Live Oak Credit Mobilization Credit Facility and Line of Credit

On December 12, 2019, we entered into a loan agreement with Live Oak Banking Company (the "Credit Mobilization Facility") which provided a $12.0 million Credit Mobilization Facility with a due date of December 12, 2022 and a $1.0 million line of credit with a due date of December 12, 2020. Both the Credit Mobilization Facility and the line of credit thereunder initially bore interest, payable monthly, at a rate per annum equal to 6.0%. The Credit Mobilization Facility and the line of credit thereunder are secured by substantially all of our assets.

On December 8, 2020, we entered into a Loan Modification Agreement with Live Oak Banking Company which amended the terms of the line of credit under the Credit Mobilization Facility, including decreasing the maximum principal from $1.0 million to $400 thousand, extending the maturity date from December 12, 2020 to December 10, 2021, and changing the interest rate from 6.0% to a variable interest rate at the prime rate, as published in the Wall Street Journal, plus 2.0%.

On April 30, 2021, we entered into a commitment with Live Oak Banking Company which provided a $12.0 million contract mobilization credit facility with a loan maturity of November 15, 2022 (the "New Credit Mobilization Facility"), which superseded the existing Credit Mobilization Facility. The New Credit Mobilization Facility bears interest (payable monthly) at a rate per annum equal to 5.25%, adjusted quarterly based on the prime rate, as published in the Wall Street Journal, plus 2.0%. On December 10, 2021, the line of credit expired. We had no balance outstanding at that time and did not renew the line of credit.

On July 14, 2022, we entered into the Second Amended and Restated Loan Agreement with Live Oak Banking Company which provided an $8.0 million mobilization credit facility with a loan maturity of July 14, 2024 and extended the maturity date of our existing $12.0 million mobilization credit facility to November 14, 2023. The mobilization credit facilities bear interest (payable monthly) at a rate per annum equal to the greater of (a) the prime rate, as published in the Wall Street Journal, plus 2% and (b) 5%. The mobilization credit facilities require the Company to meet certain financial and other covenants and are secured by substantially all of the assets of the Company.

The New Credit Mobilization Facility requires compliance with various covenants customary for agreements of this type, including those restricting our ability to incur debt, incur liens and undergo certain fundamental changes. The New Credit Mobilization Facility also includes events of default customary for agreements of this type. As of December 31, 2022, we were in compliance with all covenants under the New Credit Mobilization Facility.

There was $20 million outstanding under the New Credit Mobilization Facility as of December 31, 2022 and $12 million outstanding as of December 31, 2021. See Note 6 - Debt to our audited consolidated financial statements included elsewhere in this Current Report on Form 8-K for additional information related to the New Credit Mobilization Facility.

Paycheck Protection Program

On April 7, 2020, we received PPP Loan proceeds of $1.8 million pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The PPP Loan, which was in the form of a promissory note, dated April 7, 2020, between us and Live Oak Banking Company, as the lender, originally matured on April 7, 2022. Under the terms of the PPP, some or all of the PPP Loan amount may be forgiven if the PPP Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities. The Company applied for forgiveness to the Small Business Association on December 14, 2021. On April 4, 2021, the Company was notified that the PPP Loan was forgiven and recorded a $1.8 million gain on extinguishment of debt.

See Note 6 - Debt to our audited consolidated financial statements included elsewhere in this Current Report on Form 8-K for additional information related to the PPP Loan.

First Insurance Funding Loans

On August 24, 2021, we entered into a loan agreement with First Insurance Funding that provided $0.1 million in credit to be used to purchase certain insurance policies with a due date of May 21, 2022 (the "First FIF Loan"). On December 3, 2021, we entered into a second loan agreement with First Insurance Funding that provided an additional $0.1 million in credit to be used to purchase certain insurance policies with a due date of May 21, 2022 (the "Second FIF Loan" and, together with the First FIF Loan, the "FIF Loans"). The FIF Loans bear interest, payable monthly, at a rate per annum equal to 5.9%.

There was zero and $0.1 million outstanding under the FIF Loans as of December 31, 2022 and December 31, 2021, respectively.

Unit Split

On May 25, 2021, in accordance with the amended and restated LLC agreement, Class A Unit Interests increased by a multiple of one hundred thousand (100,000) or 1 to 100,000 unit (the "Unit Split"). The Class A members and their respective unit interests uniformly increased. Unless otherwise indicated, all unit and per unit amounts presented in this Current Report on Form 8-K have been retroactively adjusted to reflect the impact of the Unit Split.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year Ended December 31,	
(in thousands)	**2022**	**2021**
Net cash used in operating activities	784	(16,568)
Net cash used in investing activities	(16,405)	(3,176)
Net cash provided by financing activities	12,096	25,107

Cash Flows for the Year Ended December 31, 2022 and 2021

Operating Activities

During the year ended December 31, 2022, our operating activities used $0.8 million of net cash as compared to $16.6 million during the year ended December 31, 2021. The decrease in net cash used in operating activities during 2022 compared to 2021 was primarily due to progress payments made to our mission launch provider and other mission costs that were lower in 2022 than in 2021 primarily on the IM-1 and IM-2 missions both of which have targeted launch dates scheduled in fiscal year 2022. The lower cash payments for mission costs were partially offset by higher operating expenses in 2022 including salaries and wages, contract proposal costs, and audit and tax professional fees.

Investing Activities

During the year ended December 31, 2022, investing activities used $16.4 million of net cash as compared to $3.2 million during the year ended December 31, 2021. The increase in net cash used in investing activities during 2022 compared to 2021 was primarily due to capital expenditures associated with construction in progress on equipment to be used for future mission and for our lunar operations center as well as expenditures for computers and equipment associated with a newly leased facility.

Financing Activities

During the year ended December 31, 2022, financing activities provided $12.1 million of net cash as compared to $25.1 million during the year ended December 31, 2021. The decrease was primarily associated with $8.8 million lower cash proceeds from the execution of SAFE Agreements and $4.2 million lower net borrowings from our New Credit Mobilization Facility in fiscal year 2022.

Contractual Obligations and Commitments

Lease Commitments

We lease real estate for office space and for administrative, research, marketing and light manufacturing operations. These leases are classified as operating leases with various expiration dates through 2027. See Note 5 - Leases to our audited consolidated financial statements included elsewhere in this Current Report on Form 8-K for more information regarding our lease commitments.

We signed a ground lease agreement for the development of a lunar operations center that will serve as a production and testing facility of lunar lander components and other aerospace related operations. The facility is currently under construction, and the lessor will reimburse up to $40 million for certain design, construction, and development costs. We are accounting for the construction of the facility as a financing arrangement. As of December 31, 2022, we capitalized $10.3 million of construction in progress and a corresponding financing obligation of $9.1million. During the fourth quarter of 2022, construction was completed for a portion of the lunar operations center, and the Company took possession of the completed facility. Upon commencement of the lease, the Company determined that the facility qualified for sale accounting, with the leaseback being classified as an operating lease. The Company recorded right-of-use assets and corresponding lease liabilities of approximately $3.1 million. No gain or loss was recognized or deferred on the sale of the facility, as the fair value upon completion was determined to be equal to the carrying value.

Purchase Commitments

From time-to-time, we enter into long-term commitments with vendors to purchase launch services and for the development of certain components in conjunction with our obligations under revenue contracts with our customers. As of December 31, 2022, we had remaining purchase obligations under non-cancelable commitments with two vendors totaling $45.3 million of which $42.6 million is due within the next twelve months and the remaining $2.7 million is due in the subsequent twelve-month period

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

We believe that the following accounting policies involve a high degree of judgement and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of our operations. See Note 2 - Summary of Significant Accounting Policies to our audited consolidated financial statements appearing elsewhere in this Current Report on Form 8-K for a description of our other significant accounting policies.

The preparation of our consolidated financial statements and related disclosures requires us to make estimates and judgements that affect the amounts reported in those financial statements and accompanying notes. Although we believe that the estimates we use are reasonable, due to the inherent uncertainty involved in making those estimates, actual results reported in future periods could differ from those estimates.

Revenue Recognition

We recognize revenue in accordance with ASC 606, Revenue from Contracts with Customers. Our revenue is primarily generated from the progress on long-term lunar mission contracts and engineering services for the research, design, development, and manufacturing of advancement technology aerospace system.

Revenue is measured based on the amount of consideration specified in a contract with a customer. Revenue is recognized when and as our performance obligations under the terms of the contract are satisfied which generally occurs with the transfer of services to the customer. For each long-term contract, we determine the transaction price based on the consideration expected to be received. We allocate the transaction price to each distinct performance obligation to deliver a good or service, or a collection of goods and/or services, based on the relative standalone selling prices.

For most of our business, where performance obligations are satisfied due to the continuous transfer of control to the customer, revenue is recognized over time. Where the customer contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability, those contracts are accounted for as single performance obligations. We recognize revenue generally using the cost-to-cost method, based primarily on contract costs incurred to date compared to total estimated contract costs at completion. This method is deemed appropriate in measuring performance towards completion because it directly measures the value of the goods and services transferred to the customer. Billing timetables and payment terms on our contracts vary based on a few factors, including the contract type. Typical payment terms under fixed-price contracts provide that the customer pays either performance-based payment based on the achievement of contract milestones or progress payments based on a percentage of costs we incur.

Due to the nature of the work required to be performed on many of our performance obligations, the estimation of total revenues and cost at completion (the process described below in more detail) is complex and subject to many variables and requires significant judgment. The consideration to which we are entitled on our long-term contracts may include both fixed and variable amounts. Variable amounts can either increase or decrease the transaction price.

We include estimated amounts of variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the contract price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us. We reassess the amount of variable consideration each accounting period until the uncertainty associated with the variable consideration is resolved. Changes in the assessed amount of variable consideration are accounted for prospectively as a cumulative adjustment to revenue recognized in the current period.

When changes are required for the estimated total revenues on a contract, these changes are recognized on a cumulative catch-up basis in the current period. A significant change in one or more estimates could affect the profitability of one or more of our performance obligations. If estimates of total costs to be incurred exceed estimates of total consideration the Company expects to receive, a provision for the remaining loss on the contract is recorded in the period in which the loss becomes evident.

SAFE Agreements

We signed SAFE agreements with investors to fund our ongoing operations. The SAFE agreements are recorded as liabilities at fair value on our balance sheet. Certain events, including an (i) equity financing transaction, (ii) liquidity event, or (iii) a dissolution before the termination of the SAFE trigger conversion or result in the holders of the SAFE agreements receiving consideration. See Note 8 - SAFE Agreements to our audited consolidated financial statements of Intuitive Machines LLC.

SAFE Agreements are valued as Level 3 investments which are measured at fair value. The fair value equals the weighted average value based on the estimated probability and future value of an (i) equity financing transaction, (ii) liquidity event, or (iii) a dissolution before the termination of the SAFE. The future values under these scenarios are present valued using a discount rate determined based on a calibration analysis using the transaction price of the SAFE on November 4, 2021 adjusted for changes in yield data since the calibration date.

The unobservable inputs we use in the fair value measurements are the probabilities of future scenarios, future values based on Monte Carlo simulations, and discount rate. The assumptions used in calculating the fair value of the SAFE agreements represent our best estimates, however, these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change or we use different assumptions, the value of the SAFE agreements could be materially different in the future.

Quantitative and Qualitative Disclosures About Market Risk

We have operations only within the United States and as such are exposed to certain market risks in the ordinary course of our business. Market risk represents the risk that market prices, such as foreign exchange rates, interest rates and other market changes that affect market risk-sensitive instruments, will fluctuate. Information related to quantitative and qualitative disclosure about this market risk is set forth below.

Interest Rate Risk

Our exposure to interest rate risk is influenced primarily by changes in interest rates on interest payment related to our New Credit Mobilization Facility entered into commitment in April 2021 and the Second Amended and Restated Loan Agreement entered into on July 14, 2022. We had $20 million outstanding under the New Credit Mobilization Facility as of December 31, 2022 and $12 million outstanding as of December 31, 2021. See Note 6 - Debt of our audited consolidated financial statements and consolidated financial statements for more information.

The following table below shows the sensitivity analysis of a change in interest expense by 1% change in interest rate:

(in thousands)	**As of December 31, 2022**		
Total debt	$ 20,000	$ 20,000	$ 20,000
Interest rate	4.25%	5.25%	6.25%
Interest expense	$ 850	$ 1,050	$ 1,250

As per the analysis above, a hypothetical 1% change in interest rates would not have had a material impact on our consolidated financial statements as of December 31, 2022.

We had cash and cash equivalents of $25.8 million as of December 31, 2022. Cash and cash equivalents consist of cash in banks and time deposits purchased with an initial maturity of three months or less. Our cash and cash equivalents are held for working capital purposes. Such interest-earning instruments carry a degree of interest rate risk. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs, and the fiduciary control of cash. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these instruments, a hypothetical 1% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements as of December 31, 2022.

Credit Risk

Credit risk arises from primarily from receivables from the US Government. Credit risk is managed through periodic assessment of the financial reliability of customers, taking into account the financial condition, current economic trends, analysis of historical bad debts and aging of accounts receivables. The maximum exposure to credit risk at the reporting date is primarily from accounts receivables and contract assets (unbilled revenues) which amounted to $9.1 million and $5.2 million, respectively as of December 31, 2022 and 2021.

The Company provides loss allowance using the expected credit loss model on account receivables and Contract assets (unbilled revenue).

Emerging Growth Company Status

In April 2012, the JOBS Act was enacted Section 107(b) of the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the extended transition period to comply with new or revised accounting standards and to adopt certain of the reduced disclosure requirements available to emerging growth companies. As a result of the accounting standards election, we will not be subject to the same implementation timing for new or revised accounting standards as other public companies that are not emerging growth companies which may make comparison of our financials to those of other public companies more difficult.

We expect to retain our emerging growth company status until the earliest of:

- The end of the fiscal year in which our annual revenues exceed $1.2 billion;
- The end of the fiscal year in which the fifth anniversary of our public company registration has occurred;
- The date on which we have issued more than $1.0 billion in non-convertible debt during the previous three-year period; and
- The date on which we qualify as a large accelerated filer.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Terms used in this Current Report on Form 8-K (this "Current Report") but not defined herein, or for which definitions are not otherwise incorporated by reference herein, shall have the meaning given to such terms in the proxy statement/prospectus filed with the Securities and Exchange Commission (the "SEC") on January 20, 2023 (the "Proxy Statement/Prospectus"); such definitions are incorporated herein by reference.

Intuitive Machines, Inc. ("Intuitive Machines" formerly Inflection Point Acquisition Corp. "IPAX") is providing the following unaudited pro forma condensed combined financial information to aid you in your analysis of the financial aspects of the Transactions. The following unaudited pro forma condensed combined financial information presents the combination of the financial information of IPAX and Intuitive Machines, LLC, ("Intuitive Machines OpCo") adjusted to give effect to the Transactions. The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X.

On February 13, 2023 (the "Closing Date"), Intuitive Machines consummated the transactions contemplated by the business combination agreement, dated as of September 16, 2022, by and between IPAX and Intuitive Machines OpCo (the "Business Combination Agreement"), whereby: (i) Intuitive Machines OpCo appointed Intuitive Machines as its managing member; (ii) Intuitive Machines issued to certain existing members of Intuitive Machines OpCo, a number of shares of Intuitive Machines class B common stock, par value $0.0001 per share (the "Class B Common Stock"), having one vote per share and no economic rights, or class C common stock, par value $0.0001 per share (the "Class C Common Stock"), having three votes per share and no economic rights, in each case, in exchange for payment from such Intuitive Machines Members of a per-share price equal to the par value per share of such stock, and equal to the number of Intuitive Machines OpCo Common Units held by such person as of and on the Closing Date; (iii) Intuitive Machines contributed to Intuitive Machines OpCo an amount in cash in exchange for certain units in Intuitive Machines OpCo; and (iv) the other transactions contemplated by the Business Combination Agreement (the "Transactions"). Immediately before the Transactions, IPAX was a blank check company incorporated on January 27, 2021 as a Cayman Islands exempted company and formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination with one or more businesses.

Intuitive Machines designs, manufactures, and operates space products and services. Intuitive Machines' near-term focus is to create and operate space systems and space infrastructure on and in the vicinity of the Moon that enables scientific and human exploration and utilization of lunar resources to support sustainable human presence on the Moon and exploration to Mars and beyond. Intuitive Machines is headquartered in Houston, Texas.

The unaudited pro forma condensed combined balance sheet as of December 31, 2022 combines the historical audited balance sheet of IPAX as of December 31, 2022 with the historical audited consolidated balance sheet of Intuitive Machines OpCo as of December 31, 2022, giving effect to the Transactions as if they had been consummated on December 31, 2022.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2022 combines the historical audited statement of operations of IPAX for the year ended December 31, 2022 with the historical audited consolidated statement of operations of Intuitive Machines OpCo for the year ended December 31, 2022, giving effect to the Transactions as if they had been consummated on January 1, 2022, the beginning of the earliest period presented.

The unaudited pro forma condensed combined financial information was derived from, and should be read in conjunction with, the following historical financial statements and the accompanying notes, which are included elsewhere in the Proxy Statement/Prospectus and incorporated by reference into the Current Report to which this Unaudited Pro Forma Condensed Combined Financial Information is attached:

- The historical audited financial statements of IPAX as of and for the year ended December 31, 2022; and

- The historical audited consolidated financial statements of Intuitive Machines OpCo as of and for the year ended December 31, 2022.

The foregoing historical financial statements have been prepared in accordance with U.S. GAAP. The unaudited pro forma condensed combined financial information has been prepared based on the aforementioned historical financial statements and the assumptions and adjustments as described in the notes to the unaudited pro forma condensed combined financial information. The pro forma adjustments reflect transaction accounting adjustments related to the Transactions, which is discussed in further detail below. The unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and do not purport to represent IPAX's consolidated results of operations or the consolidated financial position that would actually have occurred had the Transactions been consummated on the dates assumed or to project IPAX's consolidated results of operations or consolidated financial position for any future date or period.

The unaudited pro forma condensed combined financial information should also be read together with "*Management's Discussion and Analysis of Financial Condition and Results of Operations of IPAX*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations of Intuitive Machines OpCo*", and other financial information included elsewhere in the Proxy Statement/Prospectus and incorporated by reference into the Current Report to which this Unaudited Pro Forma Condensed Combined Financial Information is attached.

Description of the Domestication and Transactions

As previously announced, Intuitive Machines, a Delaware corporation (formerly, prior to the Domestication, a Cayman Islands exempted company), previously entered into the Business Combination Agreement, dated as of September 16, 2022, by and between IPAX and Intuitive Machines OpCo.

On February 9, 2023, as contemplated by the Business Combination Agreement and described in the section titled "The Business Combination Proposal" of the Proxy Statement/Prospectus"), IPAX filed a notice of deregistration with the Cayman Islands Registrar of Companies, together with the necessary accompanying documents, and filed a certificate of incorporation and a certificate of corporate domestication with the Secretary of State of the State of Delaware, pursuant to which IPAX was domesticated and continues as a Delaware corporation, changing its name to "Intuitive Machines, Inc."

On February 13, 2023 (the "Closing Date"), as contemplated by the Business Combination Agreement and described in the Proxy Statement/Prospectus, Intuitive Machines and Intuitive Machines OpCo consummated the Transactions as contemplated by the Business Combination Agreement.

The foregoing description of the Transactions does not purport to be complete and is qualified in its entirety by the full text of the Business Combination Agreement and the full text of the A&R Operating Agreement (as defined below), each of which are attached to this Current Report and are incorporated herein by reference.

Upon consummation of the Transactions, the Class A Common Stock ownership distribution of the post-combination company, excluding the dilutive effect of Intuitive Machines options, outstanding warrants, warrants issuable upon conversion of any working capital loans, and Preferred Investor Warrants, is as follows:

Total Capitalization

	Shares	**%**
Public Shareholders	5,493,182	26.1
Sponsor	8,243,750	39.2
Intuitive Machines OpCo Members	2,066,667	9.8
Cantor**[1]**	5,228,205	24.9
Total Shares	21,031,804	100.0

(1) Assumes that Intuitive Machines will exercise its right to direct CF Principal Investments LLC ("Cantor") to make a purchase of 5.1 million shares of Class A Common Stock under the Equity Facility (as defined below) in addition to 0.1 million shares of Class A Common Stock that Intuitive Machines has agreed to issue to Cantor in connection with the Equity Facility (the "Commitment Shares"); these shares are not legally issued and outstanding as of the Closing Date. See adjustment (J) for further details related to this arrangement.

Upon consummation of the Transactions, the ownership distribution of the post-combination company related to all instruments other than the Class A Common Stock is as follows:

Other instruments

	Shares	Class / Instrument
Series A Investors	26,000	Preferred Shares
Intuitive Machines OpCo Members(2)	15,015	Class B Common Stock
Intuitive Machines OpCo Members(2)	68,140,188	Class C Common Stock
Public Shareholders	16,487,500	Public Warrants
Sponsor	6,845,000	Private Warrants
Series A Investors	541,667	Preferred Investor Warrants
Intuitive Machines OpCo Members(2)	10,000,000	Earn Out Units

(2) Intuitive Machines Class B Common Stock and Intuitive Machines Class C Common Stock represent noneconomic ownership in the post-combination company; however, these shares coincide with Intuitive Machines OpCo Common Units, which represent an economic interest in Intuitive Machines OpCo.

The Series A Investment

On September 16, 2022, concurrently with the execution of the Business Combination Agreement, IPAX entered into the Series A Purchase Agreement with the Series A Investors, pursuant to, and on the terms and subject to the conditions of which, Intuitive Machines issued and sold to the Series A Investors (i) an aggregate of 26,000 shares of Series A Preferred Stock which will be convertible into 2,166,667 shares of Intuitive Machines Class A Common Stock and (ii) Preferred Investor Warrants to purchase 541,667 shares of Intuitive Machines Class A Common Stock at an initial exercise price of $15.00 per share, subject to adjustment. The Series A Investment was consummated following the Domestication but immediately prior to the Closing Date.

Accounting for the Transactions

The Transactions have been accounted for as a common control transaction with respect to Intuitive Machines OpCo which is akin to a reverse recapitalization. Net assets of IPAX are stated at historical cost with no goodwill or other intangible assets recorded in accordance with GAAP. The Transactions with respect to Intuitive Machines OpCo has not been treated as a change in control due primarily to one of the Intuitive Machines OpCo Members receiving the controlling voting stake in the post-combination company; their continued management of the post-combination company; and their ability to nominate a majority of the board of directors of the post-combination company. Under the guidance in ASC 805 for transactions between entities under common control, the assets, liabilities, and noncontrolling interests of Intuitive Machines OpCo and IPAX are recognized at their carrying amounts on the date of the Transactions.

Under a reverse recapitalization, IPAX has been treated as the "acquired" company for financial reporting purposes. Accordingly, for accounting purposes, the Transactions have been treated as the equivalent of Intuitive Machines OpCo issuing stock for the net assets of IPAX, accompanied by a recapitalization.

Tax Receivable Agreement

On the Closing Date, Intuitive Machines entered into a Tax Receivable Agreement with Intuitive Machines OpCo and the TRA Holders. Pursuant to the Tax Receivable Agreement, Intuitive Machines will generally be required to pay the TRA Holders 85% of the amount of the cash tax savings, if any, in U.S. federal, state, and local taxes that are based on, or measured with respect to, net income or profits, and any interest related thereto that Intuitive Machines (and applicable consolidated, unitary, or combined subsidiaries thereof, if any and collectively the "**Tax Group**") realizes, or is deemed to realize, as a result of certain tax attributes (the "**Tax Attributes**"), including:

- existing tax basis in certain assets of Intuitive Machines OpCo and certain of its direct or indirect subsidiaries, including assets that will eventually be subject to depreciation or amortization, once placed in service;
- tax basis adjustments resulting from taxable exchanges of Intuitive Machines OpCo Common Units (including any such adjustments resulting from certain payments made by Intuitive Machines under the Tax Receivable Agreement) acquired by Intuitive Machines from a TRA Holder pursuant to the terms of the A&R Operating Agreement;
- certain tax benefits realized by Intuitive Machines as a result of certain U.S. federal income tax allocations of taxable income or gain away from Intuitive Machines and to other members of Intuitive Machines OpCo and deductions or losses to Intuitive Machines and away from other members of Intuitive Machines OpCo, in each case as a result of the Transactions; and
- tax deductions in respect of portions of certain payments made under the Tax Receivable Agreement.

Upon the consummation of the Transactions, Intuitive Machines became a party to the Tax Receivable Agreement. Under the terms of the Tax Receivable Agreement, Intuitive Machines will make payments to the TRA Holders in respect of 85% of the cash tax savings resulting from the net tax benefit to Intuitive Machines of certain tax attributes (calculated using certain assumptions, and subject to the terms of the Tax Receivable Agreement). However, until a TRA Holder exchanges at least 5% of its Intuitive Machines OpCo Common Units, Intuitive Machines will hold such payments applicable to existing basis until the TRA Holder satisfies such threshold exchange. Upon the consummation of the Transactions, no TRA Holder has exchanged at least 5% of its Intuitive Machines OpCo Common Units. The tax impacts of the transaction were estimated based on the applicable law in effect on December 31, 2022.

Due to the uncertainty as to the amount and timing of future exchanges of Intuitive Machines OpCo Common Units by the TRA Holders and as to the price of Intuitive Machines Class A Common Stock at the time of any such exchanges, the unaudited pro forma condensed combined financial information does not assume that any existing equityholder of Intuitive Machines OpCo have exchanged Intuitive Machines OpCo Common Units that would create an obligation under the Tax Receivable Agreement. Therefore, no increases in tax basis in Intuitive Machines OpCo's assets or other tax benefits that may be realized under the Tax Receivable Agreement have been reflected in the unaudited condensed combined pro forma financial information. Future exchanges will result in incremental tax attributes and potential cash tax savings for Intuitive Machines. Depending on Intuitive Machines' assessment on realizability of such tax attributes, the arising Tax Receivable Agreement liability will be recorded at the exchange date against equity, or at a later point through income.

However, if all of the TRA Holders were to exchange or sell us all of their Intuitive Machines OpCo Common Units, we would recognize a deferred tax asset of approximately $160.9 million and a liability under the Tax Receivable Agreement of approximately $141.0 million, assuming: (i) all exchanges or purchases occurred on the same day; (ii) a price of $10 per share; (iii) a constant corporate tax rate; (iv) that we will have sufficient taxable income to fully utilize the tax benefits; and (v) no material changes in tax law. These amounts are estimates and have been prepared for illustrative purposes only. The actual amount of deferred tax assets and related liabilities that we will recognize will differ based on, among other things, the timing of the exchanges, the price per share of Intuitive Machines Class A Common Stock at the time of the exchange, and the tax rates then in effect and certain change of control or early termination events occurring.

If Intuitive Machines exercises its right to terminate the Tax Receivable Agreement or in the case of a change in control of Intuitive Machines or a material breach of Intuitive Machines' obligations under the Tax Receivable Agreement, all obligations under the Tax Receivable Agreement will be accelerated and Intuitive Machines will be required to make a payment to the TRA Holders in an amount equal to the present value of future payments under the Tax Receivable Agreement. This payment would be based on certain assumptions, including that Intuitive Machines would have sufficient taxable income to fully utilize the benefits arising from the Tax Attributes subject to the Tax Receivable Agreement. If Intuitive Machines were to elect to terminate the Tax Receivable Agreement immediately after the consummation of the Transactions, assuming the market value of Intuitive Machines Class A Common Stock is equal to $10 per share, Intuitive Machines currently estimates that it would be required to pay approximately $85.1 million to satisfy its total liability.

Equity Facility

On September 16, 2022, IPAX entered into the common stock purchase agreement with Cantor ("Common Stock Purchase Agreement"), for certain shares of Class A Common Stock (the "Equity Facility"). Pursuant to the terms of the Common Stock Purchase Agreement, Intuitive Machines will have the right, but not the obligation, from time to time at its sole discretion, until the first day of the month following the 18-month period from and after the Commencement, to direct Cantor to purchase up to the lesser of (i) $50.0 million of newly issued Intuitive Machines Class A Common Stock and (ii) the Exchange Cap (as defined in the Common Stock Purchase Agreement), by delivering written notice to Cantor prior to the commencement of trading on any trading day, subject to certain customary conditions and limitations set forth in the Common Stock Purchase Agreement. In connection with the execution of the Common Stock Purchase Agreement, IPAX agreed to issue the Commitment Shares to Cantor.

Proceeds related to the Equity Facility are fully reflected within the pro formas, as it is the intent of Intuitive Machines to exercise its right to direct Cantor to make a purchase under the Equity Facility; however, these shares were not legally outstanding at the Closing Date. The Equity Facility will be accounted for as a purchased put option under ASC 815, *Derivatives and Hedging.* The Commitment Shares issued to Cantor in accordance with the Common Stock Purchase Agreement will be classified as equity.

Basis of Pro Forma Presentation

The historical financial information has been adjusted to give pro forma effect to the transaction accounting required for the Transactions. The adjustments in the unaudited pro forma condensed combined financial information have been identified and presented to provide relevant information necessary for an accurate understanding of the combined entity upon the consummation of the Transactions.

Assumptions and estimates underlying the unaudited pro forma adjustments set forth in the unaudited pro forma condensed combined financial statements are described in the accompanying notes thereto. The unaudited pro forma condensed combined financial statements have been presented for illustrative purposes only and are not necessarily indicative of the operating results and financial position that would have been achieved had the Transactions occurred on the dates indicated. Further, the unaudited pro forma condensed combined financial statements do not purport to project the future operating results or financial position of Intuitive Machines following the completion of the Transactions. The unaudited pro forma adjustments represent Intuitive Machines management’s estimates based on information available as of the date of these unaudited pro forma condensed combined financial statements and are subject to change as additional information becomes available and analyses are performed.

IPAX and Intuitive Machines OpCo have not had any historical relationship prior to the Transactions. Accordingly, no pro forma adjustments were required to eliminate activities between the companies.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2022
(in thousands)

	Intuitive Machines Historical	IPAX Historical	Transaction Adjustments	Pro Forma Combined
ASSETS				
Current assets				
Cash and cash equivalents	25,764	15	29,338(A)	102,354
			26,000(B)	
			(27,919)(C)	
			50,000(J)	
			(844)(K)	
Restricted cash	62	-		62
Trade accounts receivable, net	1,302	-		1,302
Contract assets	6,979	-		6,979
Prepaid expenses	6,885	336	(5,300)(C)	25,057
			23,136(K)	
Total current assets	**40,992**	**351**	**94,411**	**135,754**
Noncurrent assets				
Property and equipment, net	21,176	-		21,176
Operating lease right-of-use assets	4,829	-		4,829
Marketable securities held in trust account	-	334,589	(309,222)(A)	-
			(25,367)(K)	
Deferred income taxes	7	-	-	7
Total noncurrent assets	**26,012**	**334,589**	**(334,589)**	**26,012**
Total assets	**67,004**	**334,940**	**(240,178)**	**161,766**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable	6,081	-		6,081
Accounts payable - affiliated companies	442	-		442
Current maturities of long-term debt	16,098	-		16,098
Contract liabilities, current	56,656	-		56,656
Operating lease liabilities, current	725	-		725
Other current liabilities	15,178	-	(3,661)(C)	11,517
Accrued offering costs and expenses	-	3,808	(3,808)(C)	-
Due to related party	-	-		-
Working Capital Loan	-	625		625
Total current liabilities	**95,180**	**4,433**	**(7,469)**	**92,144**
Noncurrent liabilities				
Long-term debt, net of current maturities	3,863	-		3,863
Contract liabilities, non-current	2,188	-		2,188
Operating lease liabilities, non-current	5,078	-		5,078
Simple Agreements for Future Equity ("SAFE Agreements")	18,314	-	(18,314)(E)	-
Other long-term liabilities	-	-	99,659(G)	99,659
Total noncurrent liabilities	**29,443**	**-**	**81,345**	**110,788**
Total liabilities	**124,623**	**4,433**	**73,876**	**202,932**
Common stock subject to possible redemption	-	320,720	(320,720)(D)	-
Series A Preferred Stock subject to possible redemption	-	-	25,825(B)	25,825
Non-controlling interests	-	-	(31,458)(I)	(31,458)
Shareholders' equity				
Class A common stock	-	-	1(D)	2
			1(F)	
Common units	1	-	(1)(E)	-
Class B common stock	-	1	(1)(F)	-
Class C common stock	-	-	7(E)	7
Paid-in capital	14,967	10,292	(279,884)(A)	41,120
			175(B)	
			(25,750)(C)	
			320,719(D)	
			18,308(E)	
			(99,659)(G)	

			(506)(H)	
			31,458(I)	
			51,000(J)	
Retained earnings/(accumulated deficit)	(72,587)	(506)	506(H)	(76,662)
			(1,000)(J)	
			(3,075)(K)	
Total shareholders' equity	**(57,619)**	**9,787**	**12,299**	**(35,533)**
Total liabilities and shareholders' equity	**67,004**	**334,940**	**(240,178)**	**161,766**

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2022
(in thousands)

	Intuitive Machines Historical	IPAX Historical	Transaction Adjustments	Pro Forma Combined
REVENUES				
Revenue	85,946	-		85,946
OPERATING EXPENSES				
Formation and operating costs	-	5,024		5,024
Cost of services	75,513	-		75,513
General and administrative	14,868	-		14,868
Depreciation	1,072	-		1,072
Total operating expenses	**91,453**	**5,024**	-	**96,477**
Loss from Operations	**(5,507)**	**(5,024)**	-	**(10,531)**
OTHER NONOPERATING INCOME				
Gain on extinguishment of debt	-	-		-
Change in fair value of over-allotment	-	-		-
Issuance cost of over-allotment	-	-		-
Interest income (expense), net	(836)	4,834	(4,834)(AA)	(836)
Change in fair value of SAFE agreements	(91)	-		(91)
Other income, net	6	-	(1,000)(DD)	(1,744)
			(750)(EE)	
Total other nonoperating income	**(921)**	**4,834**	**(6,584)**	**(2,671)**
Net income (loss) before provision for income taxes	**(6,428)**	**(190)**	**(6,584)**	**(13,202)**
(Provision for)/Benefit from income taxes	23	-	(2,861)(BB)	(2,838)
Net income (loss)	**(6,405)**	**(190)**	**(9,445)**	**(16,040)**
Net income (loss) attributable to non-controlling interests, net of tax	-	-	(12,257)(CC)	(12,257)
Net Income (loss) attributable to Intuitive Machines Inc.	**(6,405)**	**(190)**	**2,812**	**(3,783)**
Weighted average shares outstanding of redeemable Class A common stock		32,975,000		
Basic and diluted net loss per share, redeemable Class A common stock		(0.00)		
Weighted average shares outstanding of Class B non-redeemable common stock		8,243,750		
Basic and diluted net loss per share, Class B non-redeemable common stock		(0.00)		
Pro forma weighted average shares outstanding of Class A common stock	122,501,241			21,031,804
Pro forma basic and diluted net loss per share, Class A common stock	(0.05)			(0.18)

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Basis of Presentation

The pro forma adjustments have been prepared as if the Transactions had been consummated on December 31, 2022, in the case of the unaudited pro forma condensed combined balance sheet, and as if the Transactions had been consummated on January 1, 2022, in the case of the unaudited pro forma condensed combined statement of operations, as this is the beginning of the earliest period presented in the unaudited pro forma condensed combined statements of operations.

The Transactions will be accounted for as a common control transaction, with no goodwill or other intangible assets recorded, in accordance with GAAP.

Under this method of accounting, IPAX will be treated as the “acquired” company for financial reporting purposes. Under the guidance in ASC 805 for transactions between entities under common control, the assets, liabilities, and noncontrolling interests of Intuitive Machines OpCo and IPAX are recognized at their carrying amounts on the date of the Transactions. Intuitive Machines OpCo has been determined to be the predecessor to the combined entity.

The pro forma adjustments represent management’s estimates based on information available as of the date of the Current Report and are subject to change as additional information becomes available and additional analyses are performed. Management considers this basis of presentation to be reasonable under the circumstances.

One-time direct and incremental transaction costs anticipated to be incurred prior to, or concurrent with, the consummation of the Transactions are reflected in the unaudited pro forma condensed combined balance sheet as a direct reduction to the combined entity’s additional paid-in capital and are assumed to be cash settled.

2. Adjustments and Assumptions to the Unaudited Pro Forma Condensed Combined Balance Sheet

The adjustments included in the unaudited pro forma condensed consolidated combined balance sheet as of December 31, 2022 are as follows:

A. Reflects the reclassification of cash and marketable securities held in short-term investments that become available in conjunction with the Transactions, less redemptions.

B. Represents the pro forma adjustment to record the proceeds of $26.0 million from the Series A Investment and the issuance of 26,000 shares of Series A Preferred Stock and 500,000 Preferred Investor Warrants. The Series A Preferred Stock is not classified as a liability pursuant to ASC 480, due to the fact that it is not a mandatorily redeemable financial instrument, it represents an outstanding share, and it is convertible into a fixed number of shares. The Series A Preferred Stock is redeemable at the option of the holder. Therefore, the Series A Preferred Stock is required to be classified outside of permanent equity pursuant to ASC 480-10-S99. The shares of Series A Preferred Stock will be classified as temporary equity. The Preferred Investor Warrants issued with the Series A Preferred Stock are exercisable for Intuitive Machines Class A Common Stock. The Preferred Investor Warrants were evaluated and deemed not to be a liability, the Preferred Investor Warrants were determined to meet the definition of a derivative, but qualified for the scope exception for instruments in an entity’s own equity as the Preferred Investor Warrants are indexed to Intuitive Machines’ own stock and meet the criteria for equity classification.

C. Represents the pro forma adjustment to record transaction costs of $29.6 million, which were direct and incremental to the Transactions. IPAX had incurred $3.8 million in accrued transaction costs on the balance sheet as of December 31, 2022. Intuitive Machines OpCo had incurred and accrued for $3.7 million in transaction costs on the balance sheet as of December 31, 2022, relating to legal, third-party advisory, investment banking, and other miscellaneous fees. Of this amount, $2.2 million had been paid in cash as of the balance sheet date. As the Transactions will be accounted for similar to a reverse recapitalization, these costs will be reflected as a reduction to additional paid-in-capital and cash and cash equivalents.

D. Reflects the reclassification of IPAX’s historical Class A Ordinary Shares subject to possible redemption into permanent equity.

E. Represents issuance of 2.1 million shares of Intuitive Machines Class A Common Stock, 15,015 shares of noneconomic Intuitive Machines Class B Common Stock, and 68.1 million shares of noneconomic Intuitive Machines Class C Common Stock to Intuitive Machines OpCo Members. Upon the consummation of the Transactions, and as part of this issuance, Intuitive Machines OpCo’s legacy SAFE Agreements liability was eliminated and converted into approximately 2.1 million shares of Intuitive Machines Class A Common Stock. The conversion of the SAFE Agreements into Intuitive Machines Class A Common Stock represents the settlement of a liability measured at fair value for shares and results in the derecognition of liabilities of approximately $18.0 million with an offsetting entry to common stock and additional paid-in-capital for the issuance of shares. The conversion rate was determined as the purchase amount of each SAFE Agreement divided by the conversion price (equal to the Redemption Price per share), which included a 10% discount rate in some cases, as defined in the SAFE Agreements.

F. Represents the pro forma adjustment to record the conversion of the Sponsor’s 8.2 million shares of IPAX Class B Ordinary Shares into IPAX Class A Ordinary Shares.

G. Reflects the estimated fair value of the units of Intuitive Machines OpCo under the A&R Operating Agreement after the consummation of the Transactions (the “Earn Out Units”) issued to the Founders on the Closing Date. An analysis was performed, and it was determined that the Earn Out Units are not indexed to Intuitive Machines’ own stock and are therefore accounted for as a liability which will be remeasured to fair value at subsequent reporting dates with the change in fair value recognized as a gain or loss in the statement of operations. The pro forma value of the Earn Out Units was estimated using a Monte Carlo simulation model. The significant assumptions utilized in estimating the fair value of the Earn Out Units include the following: (i) Intuitive Machines stock price of $10.42; (ii) a dividend yield of 0.0%; (iii) a risk-free rate of 3.93%; and (iv) expected equity volatility of 100.0%. Estimates are subject to changes as additional information becomes available and additional analyses are performed and such changes could be material once the final valuation is determined at the Closing Date. Changes in these assumptions would be expected to impact the fair value of the Earn Out Units. A 10% increase or decrease in the per share market price of the Intuitive Machines Class A Common Stock would cause the fair value of the Earn Out Units to change by approximately $9.7 million and $(10.2) million, respectively. A 50-basis point increase or decrease in the risk-free rate would cause the fair value of the Earn Out Units to change by approximately $0.4 million and $(0.5) million, respectively. A 10% increase or decrease to the expected equity volatility would cause the fair value of the Earn Out Units to change by approximately $1.3 million and $(1.4) million, respectively. The achievement of certain contractual terms would also impact the fair value of the Earn Out Units; for example, Triggering Event I occurs if Intuitive Machines is awarded the OMES III Contract by NASA.

H. Reflects the elimination of IPAX’s historical retained earnings at the Closing Date.

I. Immediately following the consummation of the Transactions, the economic interests held by the noncontrolling interest (comprising Intuitive Machines OpCo Common Units issued at the Closing Date) were approximately 76.4%. The following table shows the economic interest of Intuitive Machines OpCo immediately following the consummation of the Transactions:

Intuitive Machines OpCo Common Units

	Units	%
Intuitive Machines	21,031,804	23.6%
Intuitive Machines OpCo Members	68,155,203	76.4%
Total Common Units	89,187,007	100.0%

The percentage representing the noncontrolling interest was calculated as Intuitive Machines OpCo Common Units issued at the Closing Date of 68,155,203 (including 4,449 Intuitive Machines OpCo Common Units issued to certain non-Accredited investors) divided by 89,187,007, which is the sum of shares of Intuitive Machines Class A Common Stock and Intuitive Machines OpCo Common Units that were outstanding following the consummation of the Transactions, inclusive of the shares that will be issued under the Equity Facility.

Net assets attributable to the noncontrolling interest is ($31.5) million (i.e., 76.4% of net assets of ($41.2) million).

J. Represents the issuance of approximately 5.2 million shares of Intuitive Machines Class A Common Stock to CFPI and proceeds of $50.0 million related to the Equity Facility. While Intuitive Machines has no obligation under the Equity Facility, their intent is to fully exercise their right under the agreement to maintain at least $105.0 million in cash coming into the business as a result of the Business Combination. There are no conditions or circumstances under which the additional 5.1 million shares would not be issued. These shares will be issued at a price of 97.5% of VWAP. The 5.1 million shares related to the Equity Facility will not be considered outstanding for legal purposes because they will not be issued concurrently with Closing. However, because the intent is to issue the shares and as the executed agreement is in place, it was determined to be appropriate to reflect the expected issuance of these shares for accounting purposes as part of the unaudited pro forma financial information. Intuitive Machines will also issue 0.1 million shares of Intuitive Machines Class A Common Stock to CFPI for the Commitment shares and recorded a nonrecurring expense in the amount of $1.0 million related to this issuance. Prior to and at the time of the issuance of any such shares, Intuitive Machines will need to comply with the conditions set forth in the Cantor Purchase Agreement.

K. Represents the recognition of a prepaid forward instrument and the cash paid to counterparties for the prepayment associated with the instrument, which includes a non-recurring transaction fee for the instrument of $0.8 million. The agreements associated with this instrument are provided as an annex to the Existing 8-K at Exhibits 10.10 and 10.11. The counterparties own 2.5 million shares at Closing that are subject to the contract and which will not be redeemed. Intuitive Machines will provide $10.48 per share to the counterparties in the form of a prepayment, which is comprised of $10.18 per share paid at Closing directly from the Trust Account and an additional $0.30 per share paid by Intuitive Machines for the transaction fee paid to the counterparties. The contracts with the counterparties are currently being assessed pursuant to ASC 815-40 to determine if they meet the conditions for equity classification. For purposes of the pro formas we have treated the prepaid forward as a financial instrument classified outside of equity, which will be recorded at fair value and remeasured at each reporting period. The prepaid forward was valued using the Black-Scholes method, resulting in a valuation of $23.1 million, and the remaining $2.3 million has been recorded as a loss on the contract. The transaction fee to the counterparties was recorded as an expense.

3. Adjustments and Assumptions to the Unaudited Pro Forma Condensed Combined Statement of Operations

The adjustments included in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2022 are as follows:

AA. Reflects the elimination of interest income earned on the trust account

BB. Represents the estimated tax impact from adjustments related to the Transactions. Following the consummation of the Transactions, Intuitive Machines OpCo will continue to be treated as a partnership for U.S. federal and state income tax purposes. Thus, its income and loss will flow through to its partners, including Intuitive Machines and will generally be taxable at the partner level. The adjustment is based on current tax expense and is computed as estimated pro forma taxable income of Intuitive Machines times the controlling interest ownership percentage which is then multiplied by the pro forma tax rate. The pro forma tax rates equals the U.S. federal statutory rate and an apportioned state tax rate. No deferred taxes are included in the pro forma tax provision because Intuitive Machines is not more likely than not to benefit from the related deferred tax assets.

CC. Immediately following the consummation of the Transactions, the economic interests held by the noncontrolling interest (comprising Intuitive Machines OpCo Common Units at the Closing Date) were approximately 76.4%. The percentage representing the noncontrolling interest was calculated as Intuitive Machines OpCo Common Units issued at the Closing Date of 68,155,203 divided by 89,187,007, which is the sum of shares of Intuitive Machines Class A Common Stock and Intuitive Machines OpCo Common Units that were outstanding following the consummation of the Transactions, inclusive of the shares that will be issued under the Equity Facility.

For the year ended December 31, 2022, net losses attributable to the noncontrolling interest will be $12.3 million (i.e., 76.4% of net losses of $15.4 million).

DD. Reflects the nonrecurring expense associated with issuance of equity to Cantor; the balance sheet impact related to this expense is reflected at adjustment (J).

EE. Reflects the nonrecurring expense associated with recognition of the prepaid forward; the balance sheet impact related to this expense is reflected at adjustment (K).

4. Loss per Share

Represents the net loss per share calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the consummation of the Transactions, assuming the shares were outstanding since January 1, 2022. As the Transactions are being reflected as if they had occurred at the beginning of the periods presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issuable relating to the Transactions have been outstanding for the entire periods presented.

(in thousands, except share and per share data)	**Year Ended December 31, 2022**
Pro forma net loss attributable to shareholders	$ (3,783)
Pro forma weighted average Class A Common Stock outstanding - basic and diluted[(1)(2)]	21,031,804
Pro forma Class A Common Stock loss per share[(1)]	$ (0.18)
Pro forma weighted average preferred shares outstanding[(3)]	26,000

(1) Excludes IPAX's 16,487,500 Public Warrants and 6,845,000 Private Placement Warrants from the computation of diluted net loss per share attributable to common shareholders for the period indicated because including them would have had an antidilutive effect.

(2) Includes 5.1 million shares to be issued to Cantor, which are not legally issued and outstanding as of the Closing Date. See adjustment (J) for further details related to this arrangement.

(3) The preferred shares are participating securities; however, the preferred shares do not share in losses. As the company is in a loss position, no loss was allocated to these shares.

The following table includes all potentially dilutive securities that are excluded from pro forma net losses for the period:

Potentially dilutive securities

	Year Ended December 31, 2022
Intuitive Machines OpCo Members	68,140,188
Other Intuitive Machines OpCo	1,844,719
Working Capital Loan Warrantholders	1,500,000
Public Warrantholders	16,487,500
Private Placement Warrantholders	6,845,000
Series A Investors	2,166,667
PIPE Warrants	541,667
Earnout Units	10,000,000