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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 28, 2021

or

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

For the transition period from to

Commission File Number: 1-38643

PAE INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

82-3173473
(I.R.S. Employer Identification No.)

7799 Leesburg Pike, Suite 300 North, Falls Church, Virginia 22043
(Address of principal executive offices) (Zip Code)

(703) 717-6000
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Class A Common Stock	PAE	Nasdaq Stock Market
Warrants	PAEWW	Nasdaq Stock Market

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The number of shares of the registrant's common stock outstanding as of May 5, 2021 was 93,069,815

PAE Incorporated
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PAE Incorporated
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except share and per share data)

	Three Months Ended	
	March 28, 2021	March 29, 2020
Revenues	\$ 748,567	\$ 617,253
Cost of revenues	566,666	465,208
Selling, general and administrative expenses	145,291	137,326
Amortization of intangible assets	12,215	8,047
Total operating expenses	724,172	610,581
Program profit	24,395	6,672
Other operating income, net	1,801	785
Operating income	26,196	7,457
Interest expense, net	(12,514)	(20,948)
Other income, net	1,200	30,112
Income before income taxes	14,882	16,621
Expense (benefit) from income taxes	2,609	(9,529)
Net income	12,273	26,150
Noncontrolling interest in earnings of ventures	(1,111)	166
Net income attributed to PAE Incorporated	\$ 13,384	\$ 25,984
Net income per share attributed to PAE Incorporated:		
Basic	\$ 0.14	\$ 0.43
Diluted	\$ 0.14	\$ 0.43
Weighted average shares outstanding:		
Basic	92,613,057	59,807,549
Diluted	95,128,326	59,807,549

See accompanying notes to condensed consolidated financial statements

PAE Incorporated
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(In thousands)

	Three Months Ended	
	March 28, 2021	March 29, 2020
Net income	\$ 12,273	\$ 26,150
Other comprehensive loss:		
Change in foreign currency translation adjustment, net of tax	(994)	(976)
Other, net	(1)	281
Other comprehensive loss	(995)	(695)
Comprehensive income	11,278	25,455
Comprehensive (loss) income attributed to noncontrolling interests	(1,254)	498
Comprehensive income attributed to PAE Incorporated	\$ 12,532	\$ 24,957

See accompanying notes to condensed consolidated financial statements

PAE Incorporated
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share and par value amounts)

	March 28, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 118,150	\$ 85,908
Accounts receivable, net	562,398	585,511
Prepaid expenses and other current assets	69,902	61,607
Total current assets	750,450	733,026
Property and equipment, net	27,652	27,615
Investments	19,400	18,272
Goodwill	591,209	590,668
Intangible assets, net	245,995	258,210
Operating lease right-of-use assets, net	183,276	191,370
Other noncurrent assets	10,283	10,209
Total assets	\$ 1,828,265	\$ 1,829,370
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 177,911	\$ 152,962
Accrued expenses	121,274	114,222
Customer advances and billings in excess of costs	74,197	106,475
Salaries, benefits and payroll taxes	158,841	145,186
Accrued taxes	15,186	15,582
Current portion of long-term debt, net	5,920	5,961
Operating lease liabilities, current portion	47,163	46,756
Other current liabilities	42,393	45,037
Total current liabilities	642,885	632,181
Deferred income taxes, net	6,587	4,389
Long-term debt, net	861,057	860,306
Long-term operating lease liabilities	136,473	145,569
Warrant liability	49,267	50,467
Other long-term liabilities	32,441	30,273
Total liabilities	1,728,710	1,723,185
Stockholders' equity:		
Preferred stock, \$0.0001 par value per share, 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.0001 par value per share: 210,000,000 shares authorized; 93,069,815 and 92,040,654 shares issued and outstanding as of March 28, 2021 and December 31, 2020, respectively	9	9
Additional paid-in capital	167,898	188,685
Accumulated deficit	(103,237)	(116,621)
Accumulated other comprehensive income	881	1,876
Total PAE Incorporated stockholders' equity	65,551	73,949
Noncontrolling interests	34,004	32,236
Total liabilities and stockholders' equity	\$ 1,828,265	\$ 1,829,370

See accompanying notes to condensed consolidated financial statements

PAE Incorporated
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) / Income	Total PAE Incorporated Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
	Shares	Amount						
Balance at December 31, 2019	282,047	\$ 3	\$ 101,742	\$ (145,371)	\$ (134)	\$ (43,760)	\$ 31,851	\$ (11,909)
Retrospective application of the Recapitalization	20,845,776	(1)	1	—	—	—	—	—
Adjusted balance at December 31, 2019	21,127,823	2	101,743	(145,371)	(134)	(43,760)	31,851	(11,909)
Net income	—	—	—	25,984	—	25,984	166	26,150
Other comprehensive income, net	—	—	—	—	(695)	(695)	—	(695)
Distributions to venture partners and other	—	—	—	—	—	—	—	—
Equity contributions from venture partners	—	—	13	—	—	13	152	165
Equity infusion from Gores	46,999,787	5	307,936	—	—	307,941	—	307,941
Private placement	23,913,044	2	212,908	—	—	212,910	—	212,910
Payment to Shay stockholders	—	—	(424,243)	—	—	(424,243)	—	(424,243)
Balance at March 29, 2020	<u>92,040,654</u>	<u>9</u>	<u>\$ 198,357</u>	<u>\$ (119,387)</u>	<u>\$ (829)</u>	<u>\$ 78,150</u>	<u>\$ 32,169</u>	<u>\$ 110,319</u>
Balance at December 31, 2020	92,040,654	9	\$ 188,685	\$ (116,621)	\$ 1,876	\$ 73,949	\$ 32,236	\$ 106,185
Net income (loss)	—	—	—	13,384	—	13,384	(1,111)	12,273
Other comprehensive income, net	—	—	—	—	(995)	(995)	—	(995)
Equity contributions from venture partners	—	—	—	—	—	—	467	467
Deconsolidation of venture	—	—	—	—	—	—	188	188
Purchase of noncontrolling interest	—	—	(17,398)	—	—	(17,398)	2,224	(15,174)
Stock-based compensation tax withholding obligation	—	—	(5,659)	—	—	(5,659)	—	(5,659)
Stock-based compensation	—	—	2,270	—	—	2,270	—	2,270
Balance at March 28, 2021	<u>92,040,654</u>	<u>\$ 9</u>	<u>\$ 167,898</u>	<u>\$ (103,237)</u>	<u>\$ 881</u>	<u>\$ 65,551</u>	<u>\$ 34,004</u>	<u>\$ 99,555</u>

See accompanying notes to condensed consolidated financial statements

PAE Incorporated
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Three Months Ended	
	March 28, 2021	March 29, 2020
Operating activities		
Net income (loss)	\$ 12,273	\$ 26,150
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property and equipment	2,268	2,583
Amortization of intangible assets	12,215	8,047
Amortization of debt issuance cost	777	6,063
Stock-based compensation	2,270	—
Net undistributed (loss) income from unconsolidated ventures	(2,411)	(663)
Deferred income taxes, net	2,818	(9,896)
Change in fair value of warrant liability	(1,200)	(33,599)
Other non-cash activities, net	(140)	270
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	22,685	20,869
Accounts payable	25,037	(2,417)
Accrued expenses	7,335	(292)
Customer advances and billings in excess of costs	(32,276)	18,223
Salaries, benefits and payroll taxes	13,951	(21,307)
Prepaid expenses and other current assets	(8,555)	(1,579)
Other current and noncurrent liabilities	(10,632)	(4,545)
Investments	1,374	750
Other noncurrent assets	7,999	4,729
Accrued taxes	(392)	(2,473)
Net cash provided by operating activities	55,396	10,913
Investing activities		
Expenditures for property and equipment	(2,434)	(404)
Proceeds from sales of property	222	—
Acquisition of noncontrolling interest	(14,300)	—
Other investing activities, net	(372)	—
Net cash used in investing activities	(16,884)	(404)
Financing activities		
Net contributions from noncontrolling interests	490	150
Borrowings on long-term debt	20,000	60,000
Repayments on long-term debt	(20,000)	(196,544)
Payment of debt issuance costs	—	(964)
Recapitalization from merger with Gores III	—	605,708
Payment of underwriting and transaction costs	—	(27,268)
Distribution to selling stockholders	—	(419,548)
Stock-based compensation tax withholding obligation	(5,659)	—
Net cash (used in) provided by financing activities	(5,169)	21,534
Effect of exchange rate changes on cash and cash equivalents	(1,101)	(288)
Net increase in cash and cash equivalents	32,242	31,755
Cash and cash equivalents at beginning of period	85,908	68,035
Cash and cash equivalents at end of period	\$ 118,150	\$ 99,790
Supplemental cash flow information		
Cash paid for interest	\$ 11,977	\$ 10,900
Cash paid for taxes	\$ 471	\$ 1,523

See accompanying notes to condensed consolidated financial statements

1. Description of Business

PAE Incorporated, formerly known as Gores Holdings III, Inc. (“Gores III”), was originally incorporated in Delaware on October 23, 2017 as a special purpose acquisition company formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses. On September 11, 2018, Gores III consummated its initial public offering (the “IPO”), following which our shares began trading on the Nasdaq Stock Market (“Nasdaq”). Unless the context otherwise indicates, references herein to the “Company” or “PAE” refer to PAE Incorporated and its consolidated subsidiaries.

On February 10, 2020 (the “Closing Date”), the Company completed the previously announced business combination (the “Business Combination”) in which Shay Holding Corporation (“Shay”) was acquired by Gores III. The transaction was completed in a multi-step process pursuant to which Shay ultimately merged with and into a wholly-owned subsidiary of Gores III, with the Gores III subsidiary continuing as the surviving company. As a result of the Business Combination, each share of common stock of Shay was cancelled and converted into the right to receive a portion of the consideration payable in connection with the transaction and Gores III acquired Shay (as it existed immediately prior to the Second Merger, as such term is defined in that certain Agreement and Plan of Merger, dated November 1, 2019, by and among Gores III, EAP Merger Sub, Inc., EAP Merger Sub II, LLC, Shay, and Platinum Equity Advisors, LLC (in its capacity as the stockholder representative) (the “Merger Agreement”)) and its subsidiaries. Additionally, the stockholders of Shay as of immediately prior to the transaction held a portion of the common stock of the Company.

For accounting purposes, the Business Combination is treated as a reverse acquisition and recapitalization (the “Recapitalization”), in which Shay is considered the accounting acquirer (and legal acquiree) and Gores III is considered the accounting acquiree (and legal acquirer).

Accordingly, as of the Closing Date, Shay’s historical results of operations replaced Gores III’s historical results of operations for periods prior to the Business Combination and the results of operations of both companies are included in the accompanying condensed consolidated financial statements for periods following the Closing Date. See Note 6 - “Business Combinations and Acquisitions” for additional information.

PAE provides a wide variety of integrated support solutions, including defense and military readiness, diplomacy, intelligence support, business process outsourcing, counter-terrorism solutions, peacekeeping, development, host nation capacity building, aircraft and ground equipment maintenance and logistics, and operations and maintenance of facilities and infrastructure. Customers include agencies of the U.S. Government, such as the Department of Defense (“DoD”) and Department of State (“DoS”), the National Aeronautics and Space Administration (“NASA”), Department of Homeland Security, intelligence community agencies and other civilian agencies, as well as allied foreign governments and international organizations.

The Company’s operations are currently organized into the following two reportable segments:

- **Global Mission Services (“GMS”):** GMS provides infrastructure and logistics management, international logistics and stabilization support, and aircraft and vehicle readiness and sustainment support. The segment focuses on customer relationships with DoD, DoS, NASA, and other government agencies for work both in the United States and outside of the United States.

- **National Security Solutions (“NSS”):** NSS provides counter-threat solutions, business process outsourcing, adjudication support services and full life cycle support for complex legal matters. NSS focuses on customer relationships in the areas of intelligence, defense and security, and with civilian agencies.

The Company separately presents the costs associated with certain corporate functions as “Corporate”, which primarily include costs that are not reimbursed by the Company’s U.S. Government customers.

2. Significant Accounting Principles and Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) for annual financial information. In management’s opinion, all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation have been included.

The Company closes its books and records on the last Sunday of the calendar quarter to align its financial closing with its business process, which were on March 28, 2021 and March 29, 2020, respectively. The condensed consolidated financial statements and disclosures included herein are labeled based on that convention. This practice only affects interim periods, as the Company’s fiscal year ends on December 31.

The condensed consolidated financial statements include the accounts of PAE Incorporated and subsidiaries and ventures in which the Company owns more than 50% or otherwise controls. All intercompany amounts have been eliminated in consolidation.

Use of Estimates

These consolidated financial statements are prepared in conformity with U.S. GAAP, which requires the use of estimates and assumptions, including assumptions to determine the fair value of acquired assets and liabilities, recoverability of long-lived assets, goodwill, valuation allowances on deferred taxes, inputs used in stock based compensation, inputs in the valuation of the warrants liability and anticipated contract costs and revenues utilized in the earnings recognition process, which affect the reported amounts in the consolidated financial statements and accompanying notes. Due to the size and nature of many of the Company’s programs, the estimation of total revenues and cost at completion is subject to a wide range of variables, including assumptions for timing and risks. Actual results may differ from management’s estimates and changes in these estimates are recorded when known.

Restatement of Previously Issued Financial Statements

As described on our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2020, filed with the SEC on May 7, 2021, the Company has restated its financial statements as of and for the year ended December 31, 2020 (“Form 10-K/A”), as well as the unaudited condensed financial statements for the three month period ended March 29, 2020, the three and six month periods ended June 28, 2020 and the three and nine month periods ended September 27, 2020. The decision to restate was reached after considering the SEC Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies (“SPACs”) issued on April 12, 2021 (the “Staff Statement”). The Staff Statement addressed certain accounting considerations for the accounting for warrants of SPACs. The Staff Statement referenced Accounting Standard Codification 815-40, Contracts in Entity’s Own Equity, which states that warrant instruments that do not meet certain criteria to be

considered indexed to an entity's own stock shall be initially classified as derivative liabilities at their estimated fair values. In periods subsequent to issuance, changes in the estimated fair value of the derivative instrument should be reported as gains or losses in the consolidated statement of operations. The restatement is the result of misapplication of the accounting guidance for warrants, which was identified by the Staff Statement.

The impact of the restatement on the condensed consolidated balance sheets, statement of operations, statement of comprehensive income and statement of cash flows for the prior periods included in this Quarterly Report is presented below:

	Three Months Ended March 29, 2020		
	As filed	Restatement adjustments	As Restated
Revenues	\$ 617,253	\$ —	\$ 617,253
Cost of revenues	465,208	—	\$ 465,208
Selling, general and administrative expenses	137,326	—	137,326
Amortization of intangible assets	8,047	—	8,047
Total operating expenses	610,581	—	610,581
Program profit	6,672	—	6,672
Other operating income, net	785	—	785
Operating income	7,457	—	7,457
Interest expense, net	(20,948)	—	(20,948)
Other income, net	—	30,112	30,112
Income (loss) before income taxes	(13,491)	30,112	16,621
Expense (benefit) from income taxes	(8,714)	(815)	(9,529)
Net income (loss)	(4,777)	30,927	26,150
Noncontrolling interest in earnings of ventures	166	—	166
Net income (loss) attributed to PAE Incorporated	\$ (4,943)	\$ 30,927	\$ 25,984
Net income (loss) per share attributed to PAE Incorporated:			
Basic	\$ (0.08)	\$ 0.51	\$ 0.43
Diluted	\$ (0.08)	\$ 0.51	\$ 0.43
Weighted average shares outstanding:			
Basic	59,807,549	59,807,549	59,807,549
Diluted	59,807,549	59,807,549	59,807,549

Three Months Ended March 29, 2020

	As filed	Restatement adjustments	As Restated
Net (loss) income	\$ (4,777)	\$ 30,927	\$ 26,150
Other comprehensive income (loss):			
Change in foreign currency translation adjustment, net of tax	(976)	—	(976)
Other, net	281	—	281
Other comprehensive loss	(695)	—	(695)
Comprehensive (loss) income	(5,472)	30,927	25,455
Comprehensive income attributed to noncontrolling interests	498	—	498
Comprehensive (loss) income attributed to PAE Incorporated	\$ (5,970)	\$ 30,927	\$ 24,957

	December 31, 2020		
	As filed	Restatement adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 85,908	\$ —	\$ 85,908
Accounts receivable, net	585,511	—	585,511
Prepaid expenses and other current assets	61,607	—	61,607
Total current assets	<u>733,026</u>	<u>—</u>	<u>733,026</u>
Property and equipment, net	27,615	—	27,615
Deferred income taxes, net	—	—	—
Investments	18,272	—	18,272
Goodwill	590,668	—	590,668
Intangible assets, net	258,210	—	258,210
Operating lease right-of-use assets, net	191,370	—	191,370
Other noncurrent assets	10,209	—	10,209
Total assets	<u>\$ 1,829,370</u>	<u>\$ —</u>	<u>\$ 1,829,370</u>
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 152,962	\$ —	\$ 152,962
Accrued expenses	114,222	—	114,222
Customer advances and billings in excess of costs	106,475	—	106,475
Salaries, benefits and payroll taxes	145,186	—	145,186
Accrued taxes	15,582	—	15,582
Current portion of long-term debt, net	5,961	—	5,961
Operating lease liabilities, current portion	46,756	—	46,756
Other current liabilities	45,037	—	45,037
Total current liabilities	<u>632,181</u>	<u>—</u>	<u>632,181</u>
Deferred income taxes, net	4,389	—	4,389
Long-term debt, net	860,306	—	860,306
Long-term operating lease liabilities	145,569	—	145,569
Warrant liability	—	50,467	50,467
Other long-term liabilities	30,273	—	30,273
Total liabilities	<u>1,672,718</u>	<u>50,467</u>	<u>1,723,185</u>
Stockholders' equity:			
Preferred stock, \$0.0001 par value per share, 1,000,000 shares authorized; no shares issued and outstanding	—	—	—
Common stock, \$0.0001 par value per share: 210,000,000 shares authorized; 92,040,654 and 21,127,823 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively	9	—	9
Additional paid-in capital	252,612	(63,927)	188,685
Accumulated deficit	(130,081)	13,460	(116,621)
Accumulated other comprehensive income (loss)	1,876	—	1,876
Total PAE Incorporated stockholders' equity	<u>124,416</u>	<u>(50,467)</u>	<u>73,949</u>
Noncontrolling interests	32,236	—	32,236
Total liabilities and stockholders' equity	<u>\$ 1,829,370</u>	<u>\$ —</u>	<u>\$ 1,829,370</u>

	Three Months Ended March 29, 2020		
	As filed	Restatement adjustments	As Restated
Operating activities			
Net income (loss)	\$ (4,777)	\$ 30,927	\$ 26,150
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of property and equipment	2,583	—	2,583
Amortization of intangible assets	8,047	—	8,047
Amortization of debt issuance cost	6,063	—	6,063
Net undistributed (loss) income from unconsolidated ventures	(663)	—	(663)
Deferred income taxes, net	(9,081)	(815)	(9,896)
Change in fair value in warrant liability	—	(33,599)	(33,599)
Other non-cash activities, net	270	—	270
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net	20,869	—	20,869
Accounts payable	(2,417)	—	(2,417)
Accrued expenses	(3,779)	3,487	(292)
Customer advances and billings in excess of costs	18,223	—	18,223
Salaries, benefits and payroll taxes	(21,307)	—	(21,307)
Inventories, net	1,342	—	1,342
Prepaid expenses and other current assets	(2,921)	—	(2,921)
Other current and noncurrent liabilities	(4,545)	—	(4,545)
Investments	750	—	750
Other noncurrent assets	4,729	—	4,729
Accrued taxes	(2,473)	—	(2,473)
Net cash provided by (used in) operating activities	10,913	—	10,913
Investing activities			
Expenditures for property and equipment	(404)	—	(404)
Net cash used in investing activities	(404)	—	(404)
Financing activities			
Net contributions from noncontrolling interests	150	—	150
Borrowings on long-term debt	60,000	—	60,000
Repayments on long-term debt	(196,544)	—	(196,544)
Payment of debt issuance costs	(964)	—	(964)
Recapitalization from merger with Gores III	605,708	—	605,708
Payment of underwriting and transaction costs	(27,268)	—	(27,268)
Distribution to selling stockholders	(419,548)	—	(419,548)
Net cash provided by (used in) financing activities	21,534	—	21,534
Effect of exchange rate changes on cash and cash equivalents	(288)	—	(288)
Net increase (decrease) in cash and cash equivalents	31,755	—	31,755
Cash and cash equivalents at beginning of period	68,035	—	68,035
Cash and cash equivalents at end of period	\$ 99,790	\$ —	\$ 99,790
Supplemental cash flow information			
Cash paid for interest	\$ 10,900	\$ —	\$ 10,900
Cash paid for taxes	\$ 1,523	\$ —	\$ 1,523

Update to Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies described in the Company's Form 10-K/A filed with the SEC on May 7, 2021.

3. Recent Accounting Pronouncements

Accounting Pronouncements Adopted

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. ASU 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 is effective in 2021 and interim periods within that year and permits for an early adoption. The Company adopted ASU 2019-12 effective January 1, 2021. The adoption of the guidance did not have a material impact on its financial statements and related disclosures.

Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the reference rate reform. The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company's 2020 Credit Agreements provide for \$890.0 million term loan facility and a \$175.0 million senior secured revolving credit facility priced at LIBOR. The Company is currently evaluating the impact this guidance will have on its condensed consolidated financial statements and related disclosures.

4. Revenues

Disaggregated Revenues

Disaggregated revenues by customer type were as follows (*in thousands*):

	Three Months Ended March 28, 2021		
	GMS	NSS	Total
DoD	\$ 162,433	\$ 82,200	\$ 244,633
Other U.S. government agencies	268,785	120,095	388,880
Commercial and non-U.S. customers	90,343	24,711	115,054
Total	\$ 521,561	\$ 227,006	\$ 748,567

	Three Months Ended March 29, 2020		
	GMS	NSS	Total
DoD	\$ 187,605	\$ 67,178	\$ 254,783
Other U.S. government agencies	250,042	70,722	320,764
Commercial and non-U.S. customers	19,797	21,909	41,706
Total	\$ 457,444	\$ 159,809	\$ 617,253

Revenues by contract type were as follows (*in thousands*):

	Three Months Ended March 28, 2021		
	GMS	NSS	Total
Cost-reimbursable	\$ 260,920	\$ 90,093	\$ 351,013
Fixed-price	181,304	82,517	263,821
Time and materials	79,337	54,396	133,733
Total	\$ 521,561	\$ 227,006	\$ 748,567

	Three Months Ended March 29, 2020		
	GMS	NSS	Total
Cost-reimbursable	\$ 266,080	\$ 36,903	\$ 302,983
Fixed-price	162,038	68,958	230,996
Time and materials	29,326	53,948	83,274
Total	\$ 457,444	\$ 159,809	\$ 617,253

Disaggregated revenues by geographic location were as follows (*in thousands*):

	Three Months Ended March 28, 2021		
	GMS	NSS	Total
United States	\$ 288,772	\$ 225,870	\$ 514,642
International	232,789	1,136	233,925
Total	\$ 521,561	\$ 227,006	\$ 748,567

	Three Months Ended March 29, 2020		
	GMS	NSS	Total
United States	\$ 248,909	\$ 158,139	\$ 407,048
International	208,535	1,670	210,205
Total	\$ 457,444	\$ 159,809	\$ 617,253

Remaining Performance Obligations

The Company's remaining performance obligations balance represents the expected revenue to be recognized for the satisfaction of remaining performance obligations on existing contracts. This balance excludes unexercised contract option years and task orders that may be issued underneath an indefinite delivery, indefinite quantity contract. The remaining performance obligations balance as of March 28, 2021 and December 31, 2020 was \$1,744.1 million and \$1,722.0 million, respectively.

As of March 28, 2021, the Company expects to recognize approximately 87.8% and 12.2% of the remaining performance obligations balance as revenue over the next year and thereafter, respectively.

5. Contract Assets and Contract Liabilities

Contract assets consist of unbilled receivables, which represent rights to payment for work or services completed but not billed as of the reporting date. Contract assets are recorded as unbilled receivables within accounts receivable, net on the condensed consolidated balance sheets.

Contract liabilities are advances and milestone payments from customers on certain contracts that exceed revenue earned to date. Contract liabilities are recorded as customer advances and billings in excess of costs on the condensed consolidated balance sheets.

Contract assets and contract liabilities consisted of the following as of the dates presented (*in thousands*):

	March 28, 2021	December 31, 2020
Contract assets	\$ 395,455	\$ 360,552
Contract liabilities	\$ 74,197	\$ 106,475

The increase in contract assets of \$34.9 million during the three months ended March 28, 2021 was primarily due to the timing of billings, partially offset by revenue recognized related to the satisfaction of performance obligations.

The decrease in contract liabilities of \$(32.3) million during the three months ended March 28, 2021 was primarily due to the timing of advance payments from customers offset by revenue recognized during the period.

The Company recognized \$84.4 million and \$38.0 million during the three months ended March 28, 2021 and March 29, 2020, respectively, relating to amounts that were included in the beginning balance of contract liabilities for each of the periods.

6. Business Combinations and Acquisitions

As described in Note 1 - "Description of Business," the Business Combination was consummated on February 10, 2020. For financial accounting and reporting purposes under U.S. GAAP, the Business Combination was accounted for as a reverse acquisition and recapitalization, with no goodwill or other intangible asset recorded. Under this method of accounting, Gores III (legal acquirer) is treated as the acquired entity and Shay (legal acquiree) is deemed to have issued common stock for the net assets and equity of Gores III consisting of mainly cash, accompanied simultaneously by the Recapitalization. The net assets of Gores III are stated at historical cost, and accordingly the equity and net assets of Shay have not been adjusted to fair value. Consequently, the consolidated assets, liabilities and results of operations of Shay are the historical financial statements of PAE Incorporated and the Gores III assets, liabilities and results of operations are consolidated with the assets, liabilities and results of operations of Shay beginning on the Closing Date. Shares and earnings per share information prior to the Business Combination have been retroactively restated to reflect the exchange ratio established in the Recapitalization.

Other than professional fees paid to consummate the transaction, the Business Combination primarily involved the exchange of cash and equity between Gores III, Shay and the stockholders of the respective companies. The aggregate proceeds paid to the Shay Stockholders (as defined below) on the Closing Date was approximately \$424.2 million. The remainder of the consideration paid to the Shay Stockholders consisted of 21,127,823 newly issued shares of Class A Common Stock of PAE Incorporated, par value \$0.0001 per share ("Class A Common Stock").

In addition to the foregoing consideration paid on the Closing Date, former stockholders of Shay are entitled to receive additional Earn-Out Shares from PAE of up to an aggregate of 4,000,000 shares of Class A Common Stock if the price of Class A Common Stock trading on the Nasdaq exceeds certain thresholds during the five-year period following the completion of the Business Combination. See Note 11 - "Stockholders' Equity - Earn-Out Agreement" for additional information.

The Company also has certain warrants issued by Gores III that remain outstanding after the Business Combination.

In connection with the Business Combination, the Company recorded \$18.2 million, net of tax as a reduction to additional paid in capital related to the transaction costs. These costs were directly attributable to the Recapitalization. In addition, the Company recorded \$3.4 million of transaction costs related to the warrants as non-operating expense in the consolidated statement of operations.

During the third quarter of 2020, pursuant to the post-closing adjustment provisions contained in the Merger Agreement, the Company made a post-closing adjustment payment of \$20.2 million to the Shay Stockholders. In addition, the Company paid \$1.0 million to certain members of PAE management in connection with the post-closing adjustment, and such amount was recorded as compensation expense.

CENTRA Technology, Inc.

On November 20, 2020, the Company acquired 100% of the outstanding capital stock of CENTRA Technology, Inc. ("CENTRA") for a consideration paid of \$225.3 million, net. The results of CENTRA's operations have been included in the Company's condensed consolidated financial statements since that date. This business combination expands and differentiates PAE's capabilities in intelligence analysis, communication systems integration and research and development services for intelligence and defense customers. The Company recognized fair values of assets acquired of \$177.4 million and assumed liabilities of \$77.2 million allocating \$125.1 million to goodwill and \$74.1 million to intangible assets. The goodwill of \$125.1 million arising from the acquisition relates primarily to revenue and cost synergies. This goodwill is not deductible for tax purposes.

The Company has completed the purchase accounting valuation for this acquisition.

Metis Solutions Corporation

On November 23, 2020, the Company completed the acquisition of 100% of the capital stock of Metis Solutions Corporation ("Metis") for a consideration paid of \$95.7 million in cash. The results of Metis operations have been included in the condensed consolidated financial statements since that date. This business combination expands and differentiates PAE's capabilities in intelligence analysis, training and program support for intelligence and defense customers. The Company recognized fair values of assets acquired of \$60.4 million and assumed liabilities of \$20.7 million allocating \$56.0 million to goodwill and \$37.8 million to intangible assets. The goodwill of \$56.0 million arising from the acquisition relates primarily to revenue and cost synergies. This goodwill is not deductible for tax purposes.

The Company has completed the purchase accounting valuation for this acquisition.

7. Accounts Receivable, net

The components of accounts receivable, net consisted of the following as of the dates presented (*in thousands*):

	March 28, 2021	December 31, 2020
Billed receivables	\$ 169,668	\$ 227,787
Unbilled receivables	395,455	360,552
Less allowance for credit losses	(2,725)	(2,828)
Total accounts receivables, net	<u>\$ 562,398</u>	<u>\$ 585,511</u>

As of March 28, 2021 approximately 91.3% of the Company's accounts receivable are with the U.S. government.

8. Goodwill and Intangible Assets, net

Goodwill

There was no impairment for the three months ended March 28, 2021 and for the three months ended March 29, 2020, respectively.

The Company considered the implications of COVID-19 as it relates to the fair value of goodwill. COVID-19 has had a marginally unfavorable impact on the Company's results of operations for the three months ended March 28, 2021. Since the Company's primary customers are departments and agencies within the U.S. Government, it has not historically had significant issues collecting its receivables and management does not anticipate issues collecting receivables in the foreseeable future. In addition, the Company's contract awards typically extend to at least five years, including options, and it has a strong history of being awarded a majority of these contract options. Management does not anticipate that the pandemic will have a materially adverse impact on such options. Based on management's assessment there has been no material impact to the fair value of goodwill due to the implications of COVID-19.

Intangible Assets, net

The components of intangible assets, net consisted of the following as of the dates presented (*in thousands*):

	March 28, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 390,900	\$ (160,640)	\$ 230,260
Technology	1,700	(1,700)	—
Trade name	24,800	(9,065)	15,735
Total	<u>\$ 417,400</u>	<u>\$ (171,405)</u>	<u>\$ 245,995</u>

	December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 390,900	\$ (149,163)	\$ 241,737
Technology	1,700	(1,700)	—
Trade name	24,800	(8,327)	16,473
Total	<u>\$ 417,400</u>	<u>\$ (159,190)</u>	<u>\$ 258,210</u>

As of the three months ended March 28, 2021, customer relationships and trade name intangibles had weighted average remaining useful lives of 8.0 years and 5.7 years, respectively.

For the three months ended March 28, 2021 and March 29, 2020, amortization expense was approximately \$12.2 million and \$8.0 million, respectively.

Estimated amortization expense in future years is expected to be:

	As of March 28, 2021
Remainder of 2021	\$ 37,891
2022	50,089
2023	40,666
2024	33,782
2025	28,015
Thereafter	55,552
Total	\$ 245,995

9. Consolidated Ventures

The Company consolidates an investment when it has determined that the investment is a variable interest entity (“VIE”) and that the Company is the primary beneficiary. As the primary beneficiary, the Company has a risk and obligation to absorb any losses significant to the VIE and the power, through voting rights or similar rights, to direct the activities that could impact economic performance of the VIE. The use of the assets of the VIEs to settle the Company’s liabilities is subject to the approval of the managing body of each VIE.

The cash flows generated by these VIEs are included within the Company’s condensed consolidated statements of cash flows. The condensed consolidated balance sheets include the following amounts from these consolidated VIEs as of the dates presented (*in thousands*):

	March 28, 2021	December 31, 2020
Assets		
Total assets	\$ 145,862	\$ 145,664
Liabilities and equity		
Total liabilities	\$ 97,461	\$ 96,318
Total equity	48,401	49,346
Total liabilities and equity	\$ 145,862	\$ 145,664

The condensed consolidated statements of operations include the following amounts from consolidated VIEs for the periods presented (*in thousands*):

	Three Months Ended	
	March 28, 2021	March 29, 2020
Income statements		
Revenues	\$ 91,527	\$ 87,191
Cost of revenues	75,111	68,525
Selling, general and administrative expenses	17,497	18,017
Total operating expenses	92,608	86,542
Program (loss) income	(1,081)	649
Other loss, net	(225)	(1,049)
Net loss	\$ (1,306)	\$ (400)

DZSP 21 LLC

On January 31, 2021, the Company, acquired the 49% minority interest in the DZSP 21 LLC joint venture from Parsons Government Services, Inc. for total consideration of \$15.8 million. Following the completion of this transaction, the Company owns 100% of DZSP 21 LLC.

10. Debt

Long-term debt consisted of the following as of the dates presented (*in thousands*):

	March 28, 2021	December 31, 2020
First Term Loan	\$ 890,000	\$ 890,000
Total debt	890,000	890,000
Unamortized discount and debt issuance costs	(23,023)	(23,733)
Total debt, net of discount and debt issuance costs	866,977	866,267
Less current maturities of long-term debt	(5,920)	(5,961)
Total long-term debt, net of current	\$ 861,057	\$ 860,306

Credit Agreements

On October 19, 2020, the Company refinanced the 2016 credit agreements (comprised of (i) a first lien term loan credit agreement, as amended; (ii) a second lien term loan credit agreement, as amended; and (iii) a revolving credit facility, as amended, each dated as of October 26, 2016) (the "2016 Credit Agreements") and entered into new senior secured credit facilities (the "2020 Credit Agreements"). The 2020 Credit Agreements provide for borrowings up to \$890.0 million. The 2020 Credit Agreements established a \$740.0 million term loan facility maturing in October 2027 priced at LIBOR plus a spread of 4.5%, a \$150.0 million delayed draw term loan facility maturing in October 2027 priced at LIBOR plus a spread of 4.5% (together the "First Term Loan"), and a \$175.0 million senior secured revolving credit facility (the "2020 ABL Credit Agreement") maturing in October 2025 priced at LIBOR plus a spread of 1.8% to 2.3%.

The 2020 Credit Agreements require the Company to comply with specified financial covenants under certain circumstances, including the maintenance of certain leverage ratios.

The 2020 Credit Agreements also contain various non-financial covenants, including affirmative covenants with respect to reporting requirements and maintenance of business activities, and negative covenants that, among other things, may limit or impose restrictions on the Company's ability to alter the character of the business, consolidate, merge, or sell assets, incur liens or additional indebtedness, make investments, and undertake certain additional actions.

PAE was in compliance with the financial covenants under the 2020 Credit Agreements as of March 28, 2021 and December 31, 2020, respectively.

Future principal maturities of the Company's long-term debt are summarized as follows (*in thousands*):

	As of March 28, 2021
Remainder of 2021	\$ 8,900
2022	8,900
2023	8,900
2024	8,900
2025	8,900
Thereafter	845,500
Total	\$ 890,000

As of March 28, 2021 and December 31, 2020, the available borrowing capacity under the 2020 ABL Credit Agreement was approximately \$146.7 million and \$132.8 million, respectively.

Interest Rates on Credit Agreements

The interest rate per annum applicable to amounts borrowed under the First Term Loan is equal to either the Base Rate (as defined below) or the LIBO Rate (as defined below), in either case, plus (i) 4.5% in the case of the Base Rate loans and (ii) 3.5% in the case of LIBO Rate loans.

The "Base Rate" is defined as a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus one half of one percent, (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America ("BofA") as its "prime rate," and (c) the LIBO Rate for a LIBO Rate Term Loan with a one month interest period commencing on such day plus 1.0%. The "prime rate" is a rate set by BofA based upon various factors including BofA's costs and desired return, general economic conditions and other factors. The "LIBO Rate" is defined as the rate per annum equal to the London Interbank Offered Rate or a comparable or successor rate, whichever rate is approved by the Administrative Agent (as that term is defined in the 2020 Credit Agreements).

As of March 28, 2021 and December 31, 2020, the applicable interest rate on the amounts borrowed under the First Term Loan was 5.3% for each period, respectively.

The interest rate per annum applicable to the 2020 Credit Agreements is equal to either a Base Rate or a LIBO Rate plus (i) a range of 0.8% to 1.3% in the case of Base Rate loans and (ii) a range of 1.8% to 2.3% in the case of LIBO Rate loans, each based on average availability as of the first day of each quarter.

As of March 28, 2021 and December 31, 2020, the applicable interest rate on amounts borrowed under the 2020 Revolving Credit Facility was 4.0% for each period, respectively.

In addition, the LIBO Rate is the subject of recent national, international, and other regulatory guidance and proposals for reform and replacement. In July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the "U.K. FCA"), which regulates LIBO Rate, announced that the U.K. FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBO Rate benchmark after 2021. This announcement indicates that the continuation of LIBO Rate on the current basis cannot and will not be guaranteed after 2021, and it appears likely that LIBO Rate will be discontinued or modified. The consequences of the discontinuance of the LIBO Rate benchmark cannot be entirely predicted but could include an increase in the cost of our variable rate indebtedness.

Letters of Credit

The Company had ten outstanding letters of credit for program and insurance requirements totaling approximately \$23.4 million as of March 28, 2021 and 13 outstanding letters of credit for program and insurance requirements totaling approximately \$23.9 million as of December 31, 2020.

11. Stockholders' Equity

Authorized and Outstanding Stock

In connection with the Business Combination, the Company made changes to its capital stock. The Company's amended and restated certificate of incorporation authorizes the issuance of 211,000,000 shares of capital stock, par value of \$0.0001 per share, consisting of (a) 210,000,000 shares of Class A common stock, and (b) 1,000,000 shares of preferred stock.

As a result of the Business Combination, the shares issued to Shay Stockholders are reflected as if they were issued and outstanding as of the earliest reported period to reflect the new capital structure.

Earn-Out Agreement

In connection with the Business Combination, stockholders of Shay immediately prior to the transaction (which stockholders consisted of certain affiliates of Platinum Equity, LLC and members of PAE management (the "Shay Stockholders")) are entitled to receive up to an aggregate of 4,000,000 additional shares of Class A Common Stock (the "Earn-Out Shares") if at any time during the five-year period following the Closing Date (the "Earn-Out Period") the volume weighted average closing sale price of one share of Class A Common Stock on the Nasdaq (or the exchange which shares of Class A Common Stock are then listed) for a period of at least 10 days out of 20 consecutive trading days (the "Common Share Price") exceeds certain thresholds, as described below.

The thresholds (each a "Triggering Event") causing the Earn-Out Shares to be issued by the Company to the Shay Stockholders is any such event that occurs within the Earn-Out period as follows: (i) a one-time issuance of 1,000,000 shares if the Common Share Price is greater than \$13.00; (ii) a one-time issuance of 1,000,000 shares if the Common Share Price is greater than \$15.50; (iii) a one-time issuance of 1,000,000 shares if the Common Share Price is greater than \$18.00; and (iv) a one-time issuance of 1,000,000 shares if the Common Share Price is greater than \$20.50.

Further, if during the Earn-Out Period there is a change in control (as defined in the Merger Agreement) that results in the holders of Class A Common Stock receiving a per share price in respect of their Class A Common Stock that is equal to or greater than the applicable Common Share Price required in connection with any Triggering Event (an "Acceleration Event"), then any

such Triggering Event that has not previously occurred will be deemed to have occurred, and the Company must issue Earn-Out Shares accordingly.

If no Triggering Event is achieved within the Earn-Out Period, the Company will not be required to issue the Earn-Out Shares. No Triggering Event was achieved during the three months ended March 28, 2021.

Any transactions related to Earn-Out Shares are recorded within the stockholders' equity section of the Company's condensed consolidated financial statements. Earn-Out Shares will be recognized as stock dividends and recorded at fair value when they are effective upon achievement of a Triggering Event.

12. Net Income Per Share

Basic net income per common share is determined by dividing the net income attributed to stockholders by the weighted average number of common shares outstanding during the period presented. Diluted income per share is determined by adjusting the weighted average number of shares of common stock and common stock equivalents outstanding for the dilutive effect of common stock equivalents for the periods presented.

The following table sets forth the computation of basic and diluted loss per share attributable to the Company's common stockholders for the periods presented (*in thousands, except shares and per share amounts*):

	Three Months Ended	
	March 28, 2021	March 29, 2020
Numerator:		
Net income attributed to PAE Incorporated	\$ 13,384	\$ 25,984
Denominator:		
Basic weighted average shares	92,613,057	59,807,549
Diluted weighted average shares	95,128,326	59,807,549
Basic income per share	\$ 0.14	\$ 0.43
Diluted income per share	\$ 0.14	\$ 0.43

The Company has not included the effect of 19,999,985 shares of Common Stock issuable upon the exercise of warrants in the calculation of diluted net income per share for the three months ended March 28, 2021. Warrants are excluded when the exercise price exceeds the average market value of the Company's common stock price during the applicable period.

The Company has not included the effect of 4,000,000 Earn-Out Shares in the calculation of basic and diluted net income per share for the three months ended March 28, 2021. The condition for the issuance of these shares is based on the weighted average closing sale price of the Company's Class A Common Stock and such condition has not been met as of March 28, 2021.

Unvested RSUs and PSUs will not impact the calculation of basic earnings per share (“EPS”) until vested, in which case they would be included in the total weighted average number of shares. All potential dilutive securities, which include unvested RSUs, are included in the diluted EPS calculation. Unvested PSUs are included in the calculation of diluted EPS to the extent that the performance criteria have been achieved.

13. Leases

At March 28, 2021, the Company had right-of-use (“ROU”) assets, net of \$183.3 million and lease liabilities of \$183.6 million recorded on the condensed consolidated balance sheet.

The Company rents certain facilities and equipment under operating leases. The Company’s total lease cost is recorded primarily within selling, general and administrative expenses on the condensed consolidated statements of operations. Rents which are directly chargeable to a project are charged to cost of revenues.

During the three months ended March 28, 2021 and March 29, 2020, the Company recognized operating lease costs of approximately \$15.6 million and \$14.1 million, respectively.

The Company’s future minimum operating lease payments for noncancelable operating leases were as follows (*in thousands*):

	March 28, 2021
Remainder of 2021	\$ 36,794
2022	42,340
2023	37,248
2024	29,034
2025	22,565
Thereafter	54,597
Total future minimum lease payments	222,578
Less imputed interest	38,942
Present value of minimum lease payments	183,636
Less current maturities of lease liabilities	47,163
Long-term lease liabilities	<u>\$ 136,473</u>

The weighted-average remaining lease term and the weighted-average discount rate for the Company’s operating leases were approximately 6.7 years and 6.2%, respectively, at March 28, 2021.

The Company made cash payments of approximately \$12.1 million for operating leases for the three months ended March 28, 2021, which are included in cash flows from operating activities in the condensed consolidated statement of cash flows.

14. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between marketplace participants at the measurement date. The valuation techniques the Company utilizes to measure the fair value of financial instruments are based upon observable and unobservable

inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions.

These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in observable 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.
- Level 3 – Significant inputs to the valuation model are unobservable and reflect Company's own estimates and assumptions.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts.

The carrying value of the Company's outstanding debt obligations approximates its fair value. The fair value of long-term debt is calculated using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the Company's 2020 Credit Agreements.

The warrant liability is measured at fair value at each reporting period and changes in fair value are recorded in other income, net. The public warrants liability is measured using Level 1 inputs based on observable active markets. The private placement warrants liability is measured using Level 3 inputs using the Black-Scholes option pricing model. The significant assumptions the Company used in the model are:

Valuation Inputs	March 28, 2021	December 31, 2020
Asset price	\$ 9.2	\$ 9.2
Exercise price	\$ 11.5	\$ 11.5
Contractual term	3.9	4.1
Volatility	50.0 %	50.0 %
Risk-free rate of return	0.5 %	0.3 %
Dividend yield	— %	— %

Details of the changes in fair value for the public warrants and private placement warrants are as follows:

Public warrant liability	March 28, 2021
Public warrant liability as of December 31	\$ 30,667
Changes in fair value	(667)
Ending public warrant liability	<u>\$ 30,000</u>

Private warrant liability	March 28, 2021	
Private warrant liability as of December 31	\$	19,800
Changes in fair value		(533)
Ending private warrant liability	\$	19,267

15. Legal Proceedings, Commitments, and Contingencies

The Company is a party to, or has property subject to, litigation and other proceedings. Management believes the probability is remote that the outcome of the matters will have a material adverse effect on its operations as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on net earnings in a future period. The Company cannot predict the outcome of legal proceedings and loss or range of loss contingencies with certainty.

16. Segment Reporting

The Company's operations and reportable segments are organized around the nature of the services and products provided to customers. The Company defines its reportable segments based on the way the CODM manages the operations of the Company for purposes of allocating resources and assessing performance.

The GMS operating segment provides support to the U.S. Government and its partners within and outside the United States providing sustainment, training and readiness support and advancing foreign policy objectives. The NSS operating segment provides a wide-ranging portfolio of offerings that support all facets of national security, including intelligence, homeland security and civil government missions.

While the CODM uses a variety of different measures to evaluate the Company's segments, the primary measures used to evaluate segment performance and allocate resources are revenues and operating income. As a result, interest expense, net and provision for income taxes as recorded on the condensed consolidated statements of operations are not allocated to the Company's operating segments.

The following table shows information by reportable segment for the periods presented (in thousands):

	Three Months Ended	
	March 28, 2021	March 29, 2020
Revenues		
GMS	\$ 521,561	\$ 457,444
NSS	227,006	159,809
Corporate	—	—
Total revenues	<u>\$ 748,567</u>	<u>\$ 617,253</u>
Operating income (loss)		
GMS	\$ 24,514	\$ 12,603
NSS	11,390	4,367
Corporate	(9,708)	(9,513)
Total operating income	<u>\$ 26,196</u>	<u>\$ 7,457</u>
Amortization of intangible assets		
GMS	\$ 4,161	\$ 4,115
NSS	8,054	3,932
Corporate	—	—
Total amortization of intangible assets	<u>\$ 12,215</u>	<u>\$ 8,047</u>

Under U.S. Government cost accounting standards, indirect costs including depreciation expense are collected in numerous indirect cost pools, which are then collectively allocated to the Company's reportable segments based on a representative causal or beneficial relationship of the costs in the pool to the costs in the base. While depreciation expense is a component of the allocated costs, the allocation process precludes depreciation expense from being specifically identified by the Company's individual reportable segments. For this reason, depreciation expense by reportable segment is not presented separately above.

Asset information by segment is not a key measure of performance used by the CODM and therefore segment assets are not presented.

Less than 10.0% of the Company's revenues and tangible long-lived assets are generated by or owned by entities outside of the United States. Therefore, additional segment financial information by geographic location is not presented.

17. Related-Party Transactions

Tax Overpayment/Underpayment Amount

In connection with the Business Combination, the Shay Stockholders are entitled to a payment of the net cash savings in U.S. federal, state and local income tax that the post-closing company actually realizes (or is deemed to realize in certain circumstances) in periods after the Closing Date. The liability for this estimated payment and the corresponding charge to equity of \$4.7 million are reflected in the Company's consolidated balance sheets as of March 28, 2021.

Advisory Services

During the three months ended March 28, 2021, there were no management fees, transaction and advisory fee recognized related to any of the Company affiliates. During the three months ended March 29, 2020, the Company recognized management fees, transaction and advisory fees, and related expenses of approximately \$15.0 million. These expenses were for services rendered by one or more affiliates of Platinum Equity, LLC. As a result of the Business Combination, \$15.0 million was included with other similar transactional expenses and recorded as a reduction to the recapitalized equity.

18. Income Taxes

The Company's provision for income tax expense (benefits) was approximately \$2.6 million, and its effective income tax rates was 17.5% for the three months period ended March 28, 2021. The Company's provision for income tax expense (benefits) was approximately \$(9.5) million, and its effective income tax rates was 57.3% for the three months period ended March 29, 2020.

The provision for income taxes for the period ended March 28, 2021 differed from the U.S. federal statutory rate computed by applying the U.S. federal statutory rate to income or loss before income taxes primarily due to the benefit of Foreign Derived Intangible Income ("FDII"), nontaxable income including the fair value adjustment for warrants, and the effect of foreign operations. The provision for income taxes for the period ended March 29, 2020 differed from the U.S. federal statutory rate computed by applying the U.S. federal statutory rate to income or loss before income taxes primarily due to the benefit of FDII, the Coronavirus Aid, Relief and Economic Security Act (as amended, the "CARES Act") adjustments, nontaxable income including the fair value adjustment for warrants, and settlement of foreign taxes.

On March 27, 2020, the CARES Act was signed into law. Under the CARES Act, the Company deferred \$37.0 million of employer share of Social Security tax that will be paid equally by December 31, 2021 and 2022.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our financial statements with a narrative from the perspective of management on the Company's financial condition, results of operations, liquidity and certain other factors that may affect future results. The following discussion of the Company's financial condition and results of operations should be read in conjunction with the MD&A and the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2020, which was filed with the Securities and Exchange Commission (the "SEC") on May 7, 2021 and the unaudited condensed consolidated financial statements and related notes contained in this Quarterly Report on Form 10-Q. Certain information contained in the discussion and analysis set forth below includes forward-looking statements. Unless otherwise noted, the MD&A compares the three months ended March 28, 2021 to the three months ended March 29, 2020.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include information concerning the Company's plans, objectives, goals, strategies, future events, future revenues, performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, in the MD&A. When used in this Quarterly Report on Form 10-Q, the words "anticipates,"

“assumes,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “seeks,” “should,” and variations of such words or similar expressions, or the negatives thereof, are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, those based on the Company’s examination of historical operating trends, are based upon the Company’s current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company’s assumptions will prove correct.

There are a number of risks and uncertainties that could cause the Company’s actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Important factors that could cause the Company’s actual results to differ materially from those expressed as forward-looking statements are set forth in the Company’s 2020 Annual Report on Form 10-K/A in Part I, Item 1A under the heading Risk Factors. Such risks, uncertainties and other important factors include, among others, risks related to:

- a loss of contracts with the U.S. Government or its agencies or other state, local or foreign governments or agencies, including as a result of a reduction in government spending or changes in government spending;
- service failures or failures to properly manage projects;
- issues that damage our professional reputation;
- disruptions in or changes to prices relating to our supply chain, including as a result of difficulties in the supplier qualification process;
- failures on the part of our subcontractors or joint venture partners to perform their contractual obligations;
- failures to maintain strong relationships with other contractors;
- the impact of a negative audit or other investigation;
- failure to comply with numerous laws and regulations regarding procurement, anti-bribery and organizational conflicts of interest;
- failure to comply with the laws and other security requirements governing access to classified information;
- inability to share information from classified contracts with investors;
- impact of implementing various data privacy and cybersecurity laws;
- costs and liabilities arising under various environmental laws and regulations;
- various claims, litigation and other disputes that could be resolved against PAE;
- delays, contract terminations or cancellations caused by competitors’ protests of major contract awards received by us;
- risks related to acquisitions, including our ability to realize the benefits of acquisitions in a manner consistent with our expectations and integration risks;
- risks from operating internationally;
- the effects of the COVID-19 outbreak and other pandemics or health epidemics, including disruptions to our workforce and the impact on government spending;
- disruptions caused by natural or environmental disasters, terrorist activities or other events outside our control;
- disruptions caused by social unrest, including related protests or disturbances;
- issues arising from cybersecurity threats or intellectual property infringement claims;
- the loss of members of senior management;

- the inability to attract, train or retain employees with the requisite skills, experience and security clearances;
- the impact of the expiration of our collective bargaining agreements;
- legislative or regulatory changes or changes in accounting principles, policies or guidelines; and
- other risks and uncertainties described in this Form 10-Q and our 2020 Annual Report on Form 10-K/A, including under the section entitled “Risk Factors,” and described in our other reports filed with the SEC.

There may be other factors that may cause the Company's actual results to differ materially from those expressed in these forward-looking statements. Except as may be required by law, the Company undertakes no obligation to publicly update or revise forward-looking statements that may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

Stockholders of the Company should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q.

This MD&A generally discusses 2021 and 2020 items and year-over-year comparisons between 2021 and 2020. Discussions of 2019 items and year-to-year comparisons between 2020 and 2019 that are not included in this Form 10-Q can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 29, 2020. As used in this MD&A, unless the context indicates otherwise, the financial information relating to the three months ended March 29, 2020, are those of Shay and its subsidiaries for the period prior to the Closing and the financial information and data of PAE Incorporated and its subsidiaries for the period subsequent to the Closing, and the financial information and data for the three months ended March 28, 2021 includes the financial information and data of PAE Incorporated and its subsidiaries. See Note 1 - “Description of Business” and Note 6 - “Business Combinations and Acquisitions” for additional information.

Business Overview

PAE is a leading, highly diversified, global company that provides a broad range of operational solutions and outsourced services to meet the critical enduring needs of the U.S. government, other allied governments, international organizations and companies. PAE merges technology with advanced business practices to deliver faster, smarter and more efficient managed services. Whether clients require high-profile support to operate the largest U.S. embassies around the world or need technical solutions for programs that monitor bioterrorism agents, PAE delivers for its customers. PAE leverages its scale, over 65 years of experience and talented global workforce of approximately 20,000 to provide the essential services PAE’s clients need to tackle some of the world’s toughest challenges.

Basis of Presentation

PAE provides a wide variety of integrated support solutions, including defense and military readiness, diplomacy, intelligence support, business process outsourcing, counter-terrorism solutions, peacekeeping, development, host nation capacity building, aircraft and ground equipment maintenance and logistics, and operations and maintenance of facilities and infrastructure. Customers include agencies of the U.S. Government, such as the Department of Defense (“DoD”) and Department of State (“DoS”), the National Aeronautics and Space Administration (“NASA”), Department of Homeland Security, intelligence community agencies

and other civilian agencies, as well as allied foreign governments and international organizations.

PAE's operations are currently organized into two reportable segments, Global Mission Services ("GMS") and National Security Solutions ("NSS").

- The GMS segment generates revenues through contracts under which PAE provides customers with logistics and stability operations, force readiness and infrastructure management.
- The NSS segment generates revenues through contracts under which PAE provides customers with counter-threat solutions, intelligence solutions and information optimization.

Segment performance is based on consolidated revenues and consolidated operating income. For additional information regarding PAE's reportable segments, refer to Note 16 - "Segment Reporting" of the notes to PAE's condensed consolidated financial statements.

Factors Affecting PAE's Operating Results

Business Combinations and Acquisitions

Business Combination

Merger Consideration

As described in Note 1 - "Description of Business" and Note 6 - "Business Combinations and Acquisitions" of the notes to the consolidated financial statements, the Company completed the Business Combination on February 10, 2020. Pursuant to the terms of the Merger Agreement, the aggregate merger consideration paid for the Business Combination was approximately \$1,427.0 million. The consideration paid to the Shay Stockholders consisted of a combination of cash and stock consideration. The aggregate cash consideration paid to the Shay Stockholders at the Closing was approximately \$424.2 million, consisting of (a) approximately \$408.0 million of cash available to Gores III from its trust account, after giving effect to income and franchise taxes payable in respect of interest income earned in the trust account and redemptions that were elected by Gores III's public stockholders, plus (b) all of Gores III's other cash and cash equivalents, plus (c) gross proceeds of approximately \$220.0 million from a private placement offering conducted by Gores III in which investors purchased an aggregate of 23,913,044 shares of Class A Common Stock for \$9.20 per share, less (d) certain transaction fees and expenses, including the payment of deferred underwriting commissions agreed to at the time of Gores III's initial public offering, less (e) certain payments to participants in the 2016 Participation Plan, less (f) approximately \$136.5 million used to repay a portion of the indebtedness of Shay immediately prior to the Closing, less (g) approximately \$33.8 million of transaction fees and expenses of Shay. The remainder of the consideration paid to the Shay Stockholders consisted of 21,127,823 newly issued shares of Class A Common Stock.

In addition to the foregoing consideration paid on the Closing Date, Shay Stockholders are entitled to receive additional Earn-Out Shares (as both terms are defined in Note 11 - "Stockholders' Equity - Earn Out Agreement" of the notes to the consolidated financial statements) of up to an aggregate of four million shares of Class A Common Stock, if the price of Class A Common Stock trading on the Nasdaq exceeds certain thresholds during the five-year period following the completion of the Business Combination or if there is an Acceleration Event, as defined in Note 11 - "Stockholders' Equity - Earn-Out Agreement" of the notes to the consolidated financial statements. For further information, refer to Note 11 - "Stockholders' Equity - Earn-Out Agreement" of the notes to the consolidated financial statements.

During the third quarter of 2020, pursuant to the post-closing adjustment provisions contained in the Merger Agreement, the Company made a post-closing adjustment payment of \$20.2 million to the Shay Stockholders. In addition, the Company paid \$1.0 million to certain members of PAE management in connection with the post-closing adjustment, and such amount was recorded as compensation expense.

Incentive Plan

Prior to the closing of the Business Combination, the Gores III Board of Directors and stockholders approved the PAE Incorporated 2020 Equity Incentive Plan (the "2020 Incentive Plan"). The 2020 Incentive Plan provides for the grant of stock options, stock appreciation rights, restricted stock units (RSUs) and other stock or cash-based awards.

Debt

In connection with the Business Combination, Shay was required to amend its 2016 Credit Agreements and reduce its outstanding indebtedness under its credit facilities such that the total indebtedness under the facilities, minus cash on hand at the consummation of the transaction would not be greater than \$572.1 million. Immediately after the closing of the Business Combination, Shay reduced the outstanding balance on the 2016 Credit Agreements by approximately \$136.5 million to a principal balance of \$128.8 million.

CENTRA Technology, Inc. Business Acquisition

On October 26, 2020, Pacific Architects and Engineers, LLC, a Delaware limited liability company ("PAE, LLC"), an indirect wholly owned subsidiary of the Company, entered into a stock purchase agreement (the "Stock Purchase Agreement") by and among PAE, LLC, CENTRA Technology, Inc., a Maryland corporation ("CENTRA"), certain stockholders of CENTRA, and Barbara Rosenbaum as the sellers' representative. CENTRA provides mission critical services to the U.S. intelligence community and other U.S. national and homeland security customers. The Company completed the acquisition on November 20, 2020. Pursuant to the Stock Purchase Agreement, the consideration paid to acquire all of the shares of CENTRA was approximately \$208.0 million (net of tax benefits) in cash, subject to customary purchase price adjustments as set forth in the Stock Purchase Agreement.

The Stock Purchase Agreement contains customary representations, warranties and covenants of the parties. The Stock Purchase Agreement also contains customary indemnities, and PAE, LLC has obtained representation and warranty insurance, subject to exclusions, policy limits and certain other terms and conditions, to obtain coverage for losses that may result from a breach of certain representations and warranties made by the sellers in the Stock Purchase Agreement. An aggregate of \$5.0 million of the purchase price was deposited into an escrow account to satisfy purchase price adjustments, if any.

CENTRA's financial results have been included in our condensed consolidated financial statements commencing on November 20, 2020.

On April 16, 2021, PAE LLC made a payment of \$1.4 million related to the purchase price adjustment and the purchase price adjustment escrow funds were released to the sellers on April 23, 2021 as the result of the final closing statement, pursuant to the Stock Purchase Agreement.

Metis Solutions Corporation Business Acquisition

On November 16, 2020, PAE, LLC entered into an Agreement and Plan of Merger (the "Metis Merger Agreement") by and among PAE, LLC, Metis Solutions Corporation, a Delaware

corporation ("Metis"), Rising Tide Merger Sub, Inc., a Delaware corporation, and Christopher Wynes, solely in his capacity as the representative of the sellers. Metis provides services focused on supporting intelligence community, security and defense customers. The Company completed the acquisition on November 23, 2020. Pursuant to the Metis Merger Agreement, the consideration paid to acquire Metis was approximately \$92.0 million in cash, subject to customary purchase price adjustments as set forth in the Metis Merger Agreement.

The Metis Merger Agreement contains customary representations, warranties and covenants of the parties. The Metis Merger Agreement also contains customary indemnities, and PAE, LLC has obtained representation and warranty insurance, subject to exclusions, policy limits and certain other terms and conditions, to obtain coverage for losses that may result from a breach of certain representations and warranties made by the sellers in the Metis Merger Agreement. An aggregate of \$2.5 million of the purchase price was deposited into an escrow account to satisfy purchase price adjustments, if any.

Metis' financial results have been included in our condensed consolidated financial statements commencing on November 23, 2020.

On March 30, 2021, pursuant to the purchase price adjustment provisions of the Metis Merger Agreement, \$2.5 million of the purchase price that was in an escrow account was released in accordance with the directions specified by the representative of the sellers for distribution to the sellers. In addition, the Company made a payment of \$0.5 million to the option holders as a result of a closing underpayment adjustment.

DZSP 21 LLC Minority Interest Acquisition

On January 31, 2021, PAE Aviation and Technical Services LLC, a Delaware limited liability company ("PAE AvTech"), an indirect wholly owned subsidiary of the Company, acquired from Parsons Government Services, Inc. its 49% minority interest in the DZSP 21 LLC joint venture for a purchase price of \$15.8 million. Following the completion of this transaction, the Company owns 100% of DZSP 21 LLC and all the rights, duties and obligations under the DZSP 21 LLC operating agreement and the Guam contracts, all as set forth in the purchase agreement.

Financial and Other Highlights

From December 31, 2020 to March 28, 2021, PAE's overall contract backlog decreased by (5.8)% from \$7,915.4 million to \$7,458.9 million, of which \$1,284.1 million was funded as of March 28, 2021. Backlog is an operational measure representing PAE's estimate of the amount of revenue that it expects to realize over the remaining life of awarded contracts and task orders; the funded backlog refers to the value on contracts for which funding is appropriated less revenues previously recognized on these contracts. Unfunded backlog represents the estimated future revenues to be earned from negotiated contracts for which funding has not been appropriated or authorized, and unexercised priced contract options. The total backlog consists of remaining performance obligations plus unexercised options. PAE believes backlog is a useful metric for investors because it is an important measure of business development performance and revenue growth. This metric is used by management to conduct and evaluate its business during its regular review of operating results for the periods presented. See Note 4 - "Revenues" of the notes to the condensed consolidated financial statements for more information.

The estimated value of PAE's total backlog was as follows (*in thousands*):

	As of March 28, 2021	As of December 31, 2020
Global Mission Services:		
Funded GMS backlog	\$ 832,553	\$ 946,711
Unfunded GMS backlog	4,234,540	4,445,442
Total GMS backlog	<u>\$ 5,067,093</u>	<u>\$ 5,392,153</u>
National Security Solutions:		
Funded NSS backlog	\$ 451,574	\$ 476,618
Unfunded NSS backlog	1,940,234	2,046,634
Total NSS backlog	<u>\$ 2,391,808</u>	<u>\$ 2,523,252</u>
Total:		
Funded backlog	\$ 1,284,127	\$ 1,423,329
Unfunded backlog	6,174,774	6,492,076
Total backlog	<u>\$ 7,458,901</u>	<u>\$ 7,915,405</u>

Trends and Factors Affecting PAE's Future Performance

External Factors

PAE's business primarily focuses on providing services to the U.S. Government and allied nations and organizations; PAE's performance is inherently linked to governmental missions and goals. We have concentrated our business efforts on those missions and goals that are enduring and that have limited exposure to abrupt policy changes. For example, PAE has supported U.S. embassies since the 1970s. We are also trusted by our customers to support them on major policy initiatives that require immediate response to solve an acute crisis. Examples of this work include our rapid establishment and operation of Ebola treatment units in Liberia in 2015 and our work beginning in 2020 supporting COVID-19 testing and care, including on behalf of the state of Georgia converting a convention center to a COVID-19 treatment center in less than one week, mobilizing trained-and-ready test teams to conduct COVID-19 testing for the Southeastern Conference of the National Collegiate Athletic Association, and serving as the joint logistics and medical integrator for the Navajo Nation Department of Health's COVID-19 response.

Over most of the last two decades, the U.S. Government has increased its reliance on the private sector for a wide range of professional and support services. This development has been driven by a variety of factors, including lean-government initiatives launched in the 1990s, surges in demand during times of national crisis, the increased complexity of missions conducted by the U.S. military and the DoS, increased focus of the U.S. military on war-fighting efforts and loss of skills within the government caused by workforce reductions and retirements.

Although the size of future U.S. Government department and agency budgets remains subject to change, current indications are that overall U.S. Government spending will remain largely consistent with current spending levels. PAE believes the following industry trends will result in continued strong demand in the target markets for the types of services it provides:

- new U.S. Government policies and program, both within the United States and overseas, to provide services to address health and other social issues;

- the continued transformation of military forces, leading to continued performance of non-combat functions by government contractors, including life-cycle asset management functions ranging from organizational to depot level maintenance;
- an increased level of coordination between the DoS and DoD on key national security initiatives and foreign policies;
- increased maintenance, overhaul and upgrade needs to support aging military platforms; and
- the on-going evolution of international relations that may require enhanced or new policy initiatives.

Current Economic Conditions

PAE believes that its industry and customer base are less likely to be affected by many of the factors generally affecting business and consumer spending. PAE's contract awards typically extend to five years, including options, and it has a strong history of being awarded a majority of these contract options. Additionally, since PAE's primary customers are departments and agencies within the U.S. Government, it has not historically had significant issues collecting its receivables. However, PAE cannot be certain that the economic environment, government debt levels, or other factors such as the U.S. Government's recent decision to withdraw U.S. troops from Afghanistan will not adversely impact its business, financial condition or results of operations in the future. The government has taken several financial precautions and measures to combat the current financial market conditions, including in response to the COVID-19 pandemic.

Impact of COVID-19

We continue to work with our stakeholders (including customers, employees, suppliers and local communities) to address this global pandemic. Specifically, we are working closely with our customers, including those within the U.S. Government, to permit continued contract performance and to mitigate the impact of the current COVID-19 pandemic on our operations and personnel. We continue to review our contractual provisions, hold discussions with customers regarding the pandemic's potential impact on contract operations, and take actions to reduce the impact of COVID-19 on our business, workforce, supply chain, revenues, and results of operations. We are continuing to monitor the impact of the pandemic and other related uncertainties on financial markets, which previously caused us to delay undertaking certain actions in support of our strategic plans. In response to COVID-19, we have taken a number of steps to ensure the protection of employees and customers, as well as to mitigate any operational and financial impacts. In particular, we are:

- Implementing enhanced health and safety protocols, including at customer sites, in order to protect our employees and customers and to maintain continuity of operations;
- Actively monitoring the COVID-19 status of employees and independent contractors;
- Reviewing on an ongoing basis the impact of COVID-19 on programs, facilities and contracts with customers;
- Reducing overhead costs by among other things delaying planned hiring and by cancelling travel that is not directly related to program requirements;
- Developing contingency and business continuity plans in case COVID-19 disruptions increase or key personnel become incapacitated;
- Identifying new business opportunities related to COVID-19, including expanded service offerings for existing customers;
- Entering into contract modifications and advance agreements where applicable to permit recovery of costs relating to COVID-19; and
- Engaging in frequent and ongoing dialogue and contract negotiations with customers to either:

- Permit PAE employees to continue to work safely (including remotely); or,
- Permit PAE to be reimbursed the costs of paid leave for employees who are unable to work (as provided by the CARES Act).

COVID-19 has had a marginally unfavorable impact on the Company's results of operations for the three months ended March 28, 2021. Although our operations have been disrupted by the COVID-19 pandemic, the impact has been mitigated due to the nature of our business. In particular, our U.S. Government customers have taken steps to ensure the continuance of many of the services provided by us and other contractors, including, but not limited to, designating certain PAE contracts as essential for continued performance and authorizing remote work for contractor personnel that cannot access worksites. In addition, the impact may be further mitigated by Section 3610 of the CARES Act, which allows U.S. government agencies to reimburse contractors such as us at the minimum applicable contract billing rate for costs of certain paid leave for employees who cannot access work sites or telework through September 30, 2021. However, some U.S. Government customers have suspended or reduced work under certain of our contracts.

COVID-19 related costs for us and our subcontractors could be significant, and we are seeking reimbursement of such costs under our U.S. Government contracts through a combination of contract actions and reimbursement of costs under Section 3610 of the CARES Act. Reimbursement of any costs under Section 3610 is not expected to include profit or fee. Costs for employees whose jobs cannot be performed remotely may not be fully recoverable under our contracts. We also have no assurance that Congress will appropriate funds to cover the reimbursement of contractors authorized by the CARES Act.

Management expects that the impact of COVID-19 will be marginally unfavorable on our full year results based on information known to us at this time. Since our primary customers are departments and agencies within the U.S. Government, we have not historically had significant issues collecting our receivables and do not foresee issues collecting our receivables in the foreseeable future. In addition, our contract awards typically extend to at least five years, including options, and we have a strong history of being awarded a majority of these contract options; we do not anticipate that the pandemic will have a materially adverse impact on such awards.

Our liquidity position has not been materially impacted, and we continue to believe that we have adequate liquidity to fund our operations and meet our debt service obligations for the foreseeable future. However, we cannot predict the impact of the COVID-19 pandemic, and the longer the duration of the event and the more widespread in geographic locations where we and our suppliers operate, the more likely it is that it could have an adverse impact on our financial condition, results of operations, and/or cash flows in the future.

Inflation and Pricing

Most of PAE's contracts provide for estimates of future labor costs to be escalated for any option periods, while the non-labor costs in its contracts are normally considered reimbursable at cost. PAE's property and equipment consists principally of computer systems equipment, machinery and transportation equipment, leasehold improvements, and furniture and fixtures. PAE does not expect the overall impact of inflation on replacement costs of its property and equipment to be material to its future results of operations or financial condition.

Primary Components of Operating Results

Revenues

The majority of PAE's revenues are generated from contracts with the U.S. Government and its agencies. PAE enters into a variety of contract types, including fixed price, cost reimbursable, and time and materials contracts.

Cost of revenues

Cost of revenues includes costs related to labor, material, subcontract labor and other costs that are allowable and allocable to contracts under federal procurement standards.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of (i) fringe benefits related to the contract costs; (ii) salaries and wages plus associated fringe benefits and occupancy costs related to executive and senior management, business development, bid and proposal, contracts administration, finance and accounting, human resources, recruiting, information systems support, legal and corporate governance; and (iii) unallowable costs under applicable procurement standards that are not allocable to contracts for billing purposes. Unallowable costs do not generate revenue but are necessary for business operations.

Results of Operations

Comparison of Results for the Three Months Ended March 28, 2021 and March 29, 2020 (in thousands):

	Three Months Ended		Dollar Change	Percent Change
	March 28, 2021	March 29, 2020		
Revenues	\$ 748,567	\$ 617,253	\$ 131,314	21.3 %
Cost of revenues	566,666	465,208	101,458	21.8
Selling, general and administrative expenses	145,291	137,326	7,965	5.8
Amortization of intangible assets	12,215	8,047	4,168	51.8
Total operating expenses	724,172	610,581	113,591	18.6
Program profit	24,395	6,672	17,723	265.6
Other operating income, net	1,801	785	1,016	129.4
Operating income	26,196	7,457	18,739	251.3
Interest expense, net	(12,514)	(20,948)	8,434	(40.3)
Other income, net	1,200	30,112	(28,912)	(96.0)
Income (loss) before income taxes	14,882	16,621	(1,739)	(10.5)
Expense (benefit) from income taxes	2,609	(9,529)	12,138	(127.4)
Net income	12,273	26,150	(13,877)	(53.1)
Noncontrolling interest in earnings of ventures	(1,111)	166	(1,277)	(769.3)
Net income attributable to PAE Incorporated	<u>\$ 13,384</u>	<u>\$ 25,984</u>	<u>\$ (12,600)</u>	<u>(48.5)%</u>

Revenues

Revenues for the three months ended March 28, 2021, increased by approximately \$131.3 million, or 21.3%, from the comparable period in 2020. The increase was attributable to \$88.8 million of revenue from recent acquisitions, and by a \$42.5 million net increase from new business awards and other changes in contract volume.

Cost of revenues

Cost of revenues for the three months ended March 28, 2021, increased by approximately \$101.5 million, or 21.8%, from the comparable period in 2020. The increase in cost of revenues was primarily driven by higher revenue volume.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended March 28, 2021, increased by approximately \$8.0 million, or 5.8%, from the comparable period in 2020. The increase in selling, general and administrative expenses was primarily driven by higher revenue volume, partially offset by lower transaction related expenses.

Amortization of intangible assets

Amortization of intangible assets for the three months ended March 28, 2021, increased by approximately \$4.2 million, or 51.8%, from the comparable period in 2020. The increase was driven by the acquisition of CENTRA and Metis.

Other operating income, net

Other income, net for the three months ended March 28, 2021, increased by approximately \$1.0 million, or 129.4%, from the comparable period in 2020. This increase was driven by higher consolidated venture income in the current period.

Operating income

Operating income for the three months ended March 28, 2021, increased by approximately \$18.7 million, or 251.3%, from the comparable period in 2020. The increase resulted from higher revenue volume and lower selling, general and administrative expenses as a percentage of revenue.

Interest expense, net

Interest expense, net for the three months ended March 28, 2021, decreased by approximately \$8.4 million, or 40.3%, from the comparable period in 2020. This decrease was primarily driven by lower cost of debt from refinancing in the fourth quarter of 2020.

Other income, net

Other income, net for the three months ended March 28, 2021, decreased by approximately \$28.9 million driven by changes in fair value of the warrants.

Net income (loss)

Net income attributed to PAE for the three months ended March 28, 2021 was \$13.4 million compared with a net income attributed to PAE of approximately \$26.0 million in the comparable period in 2020. The decrease in net income for the three months ended March 28, 2021, was primarily driven by changes in fair value of the warrants, which decrease was partially offset by the increase in operating income and the reduction in interest expense..

PAE's Segments

Comparison of Results by Segments for the Three Months Ended March 28, 2021, and March 29, 2020 (in thousands):

	March 28, 2021		March 29, 2020	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
GMS	\$ 521,561	69.7 %	\$ 457,444	74.1 %
NSS	227,006	30.3	159,809	25.9
Corporate	—	—	—	—
Consolidated revenues	<u>\$ 748,567</u>	<u>100.0 %</u>	<u>\$ 617,253</u>	<u>100.0 %</u>

	Operating Income (Loss)	Profit Margin %	Operating Income (Loss)	Profit Margin %
GMS	\$ 24,514	3.3 %	\$ 12,603	2.0 %
NSS	11,390	1.5	4,367	0.7
Corporate	(9,708)		(9,513)	
Consolidated operating income	<u>\$ 26,196</u>		<u>\$ 7,457</u>	

Global Mission Services Segment Results

Revenues

Revenues for the three months ended March 28, 2021, increased by \$64.1 million, or 14.0%, from the comparable period in 2020. The increase was attributable to new business awards including COVID-19 relief opportunities, which increase was partially offset by reductions in contract volume on certain programs.

Operating income

Operating income for the three months ended March 28, 2021 increased by \$11.9 million, or 94.5%, from the comparable period in 2020. The increase was driven by higher revenue volume, lower selling, general and administrative expenses as a percentage of revenue and an increase in consolidated venture income. These increases were partially offset by higher cost of sales from an increase in non-labor revenue.

National Security Solutions Segment Results

Revenues

Revenues for the three months ended March 28, 2021 increased by \$67.2 million, or 42.0%, from the comparable period in 2020. This increase was attributable to \$88.8 million revenue from recent acquisitions, partially offset by a \$23.0 million decrease from small business set aside re-compete losses and changes in contract volume, net of new business wins.

Operating income

Operating income for the three months ended March 28, 2021 increased by \$7.0 million, or 160.8%, from the comparable period in 2020. The increase was primarily driven by higher revenue volume, improved program performance and lower selling, general and administrative expense as a percentage of revenue.

Liquidity and Capital Resources

PAE's primary sources of liquidity are cash flow from operations and borrowings under its credit facility to provide capital necessary for financing working capital requirements, capital expenditures and making selective strategic acquisitions.

On October 19, 2020 the Company refinanced the 2016 Credit Agreements and entered into the 2020 Credit Agreements. The 2020 Credit Agreements provide a \$740.0 million term loan facility maturing in October 2027, a \$150.0 million delayed draw term loan facility maturing in October 2027, and a \$175.0 million senior secured revolving credit facility (the "2020 ABL Credit Agreement") maturing in October 2025.

As of March 28, 2021, PAE had cash and cash equivalents totaling \$118.2 million and the Company had no outstanding borrowings on its 2020 ABL Credit Agreement.

PAE expects the combination of its current cash, cash flow from operations, and the available borrowing capacity under the 2020 Credit Agreements to be sufficient to continue to meet its normal working capital requirements, capital expenditures and other cash requirements. However, significant increases or decreases in revenues, accounts receivable, accounts payable, and merger and acquisition activity could affect PAE's liquidity. PAE's accounts receivable and accounts payable levels can be affected by changes in the level of contract work it performs, by the timing of large materials purchases, and subcontractor efforts used in its contracts. Government funding delays can cause delays in PAE's ability to invoice for revenues earned, presenting a potential negative impact on liquidity. PAE's ability to generate sufficient cash flows from operations necessary to fulfill its obligations under the 2020 Credit Agreements and any other commitments will depend on future financial performance, which could be affected by financial market conditions.

See Note 10 - "Debt" of the notes to the condensed consolidated financial statements for further information on the terms and availability of PAE's credit facilities.

Cash Flows Analysis

Comparison of Results for the Three Months Ended March 28, 2021, and March 29, 2020 (in thousands):

	Three Months Ended		
	March 28, 2021	March 29, 2020	Dollar Change
Net cash provided by operating activities	\$ 55,396	\$ 10,913	\$ 44,483
Net cash used in investing activities	(16,884)	(404)	(16,480)
Net cash (used in) provided by financing activities	(5,169)	21,534	(26,703)
Effect of exchange rate changes on cash and cash equivalents	(1,101)	(288)	(813)
Net increase in cash and cash equivalents	<u>\$ 32,242</u>	<u>\$ 31,755</u>	<u>\$ 487</u>

Net cash provided by operating activities

Net cash provided by operating activities for the three months ended March 28, 2021 increased by \$44.5 million from the comparable period in 2020, driven primarily by higher cash collections and increases in accounts payable and accrued expenses in the current period.

Net cash used in investing activities

Cash used in investing activities for the three months ended March 28, 2021 increased by \$16.5 million from the comparable period in 2020, primarily driven by the acquisition of the DZSP 21 LLC 49% minority interest from Parsons Government Services, Inc.

Net cash (used in) provided by financing activities

Cash provided by financing activities for the three months ended March 28, 2021 decreased by \$26.7 million from the comparable period in 2020. The decrease was primarily driven by the Recapitalization in the first quarter of 2020.

For a discussion of the Recapitalization, see Note 6 – “Business Combinations and Acquisitions” of the notes to the condensed consolidated financial statements.

Financing

Long-term debt consisted of the following as of the dates presented (*in thousands*):

	March 28, 2021	December 31, 2020
First Term Loan	\$ 890,000	\$ 890,000
Total debt	890,000	890,000
Unamortized discount and debt issuance costs	(23,023)	(23,733)
Total debt, net of discount and debt issuance costs	866,977	866,267
Less current maturities of long-term debt	(5,920)	(5,961)
Total long-term debt, net of current	\$ 861,057	\$ 860,306

The following discusses the Company's borrowing arrangements as of March 28, 2021. During the fourth quarter of 2020, the Company completed a refinancing of its existing indebtedness as further discussed below.

During the fourth quarter of 2020, the Company refinanced the 2016 Credit Agreements and entered into the 2020 Credit Agreements, which provide for borrowings up to \$890.0 million. The 2020 Credit Agreements establish a \$740.0 million term loan facility maturing in October 2027 priced at LIBOR plus a spread of 4.5%, a \$150.0 million delayed draw term loan facility maturing in October 2027 priced at LIBOR plus a spread of 4.5%, and a \$175.0 million senior secured revolving credit facility maturing in October 2025 priced at LIBOR plus a spread of 1.8% to 2.3%.

The Company used the proceeds from the 2020 Credit Agreements to repay the amounts outstanding under its 2016 Credit Agreements, with the remaining amounts to be used for general corporate purposes, mergers and acquisitions, and transaction fees and expenses.

The loans under the 2020 Credit Agreements are secured by a first lien over substantially all of the Company's assets. The 2020 Credit Agreements also contain affirmative and negative covenants customary for transactions of this type, including (i) affirmative covenants requiring the Company to comply with specified financial covenants under certain circumstances, including the maintenance of certain leverage ratios; and (ii) various non-financial covenants, including affirmative covenants with respect to reporting requirements and maintenance of business activities, and negative covenants that, among other things, may limit or impose restrictions on the Company's ability to alter the character of the business, consolidate, merge, or sell assets, incur liens or additional indebtedness, make investments, and undertake certain additional actions.

PAE was in compliance with the financial covenants under the 2020 Credit Agreements as of March 28, 2021. See Note 10 - "Debt" of the notes to the condensed consolidated financial statements.

Off-Balance Sheet Arrangements

PAE has outstanding performance guarantees and cross-indemnity agreements in connection with certain aspects of its business. PAE also has letters of credit outstanding principally related to performance guarantees on contracts and surety bonds outstanding principally related to performance and subcontractor payment bonds as described in Note 10 - "Debt" of the notes to the condensed consolidated financial statements.

PAE has entered into various arrangements to provide program management, construction management and operations and maintenance services. The ownership percentage of these ventures is typically representative of the work to be performed or the amount of risk assumed by each venture partner. Some of these ventures are considered variable interest entities. PAE has consolidated all ventures over which it has control. For all others, PAE's portion of the earnings is recorded in equity in earnings of ventures. See Note 9 - "Consolidated Variable Interest Entities" of the notes to the condensed consolidated financial statements.

PAE does not believe that it has any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

Recently Issued Accounting Pronouncements

For a description of recently announced accounting standards, including the expected dates of adoption and estimated effects, if any, on PAE's condensed consolidated financial statements, see Note 3 - "Recent Accounting Pronouncements" of the notes to the condensed consolidated financial statements.

Critical Accounting Policies

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies, as well as the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis. These estimates may change in the future if underlying assumptions or factors change. Actual results could differ materially from our estimates under different assumptions, judgments or conditions. We consider certain policies to be critical because of their complexity and the high degree of judgment and assumptions involved. Our critical accounting policies and estimates are discussed in Part II, Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2020 under "Critical Accounting Policies." There have been no changes to our existing critical accounting policies from those disclosed in our most recently filed Annual report on Form 10-K/A.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have not been any material changes to the Company's market risk since December 31, 2020. For additional information, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K/A filed with the SEC on May 7, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and

communicated to management, including our Principal Executive Officer (“PEO”) and Principal Financial Officer (“PFO”), to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our PEO and PFO carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 28, 2021. Based upon our evaluation, the PEO and PFO concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective due to the existence of an unremediated material weakness in our internal control over financial reporting related to the accounting for warrants. The material weakness is described in Item 9A - “Control and Procedures” on our amended Annual Form 10-K/A for the year ended December 31, 2020.

Remediation Efforts to Address Material Weakness in Internal Control over Financial Reporting

As described in Item 9A - “Controls and Procedures”, on our amended Annual Report on Form 10-K/A for the year ended December 31, 2020, a material weakness was identified in the accounting for warrants. This material weakness has not yet been remediated for the three months ended March 28, 2021. Management is continuing to take the necessary steps to address the causes of the material weakness in an effort to remediate this material weakness. The Company is performing the following remediation efforts to address the material weakness identified:

- Additional review procedures over complex financial instruments and accounting matters
- Additional training and enhancements to the accounting policy related to the accounting for complex financial instruments

The material weakness cannot be considered remediated until the controls operate for a sufficient period and management has concluded, through testing, that our internal controls are operating effectively.

Internal Control over Financial Reporting

We have evaluated our internal control over financial reporting for the three months ended March 28, 2021 and, in addition to the changes discussed above, the Company continued to make changes to certain internal controls to reflect the operations of PAE’s recent acquisitions of Metis and CENTRA. There have been no other changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. Other Information

ITEM 1. LEGAL PROCEEDINGS

PAE is involved in various legal proceedings, government audits, investigations, claims and disputes that arise in the normal course of business, including those related to employment matters, contractual relationships and other business matters. These legal proceedings seek various remedies, including claims for monetary damages in varying or unspecified amounts. In addition, awards of government contracts may be protested at the U.S. Government

Accountability Office or the U.S. Court of Federal Claims; and conversely, PAE may from time to time protest awards made to other companies.

Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, PAE does not expect any of the currently ongoing audits, reviews, investigations, or litigation to have a material adverse effect on its financial condition or operating results. Its view of the matters not specifically disclosed could change in future periods as events unfold.

ITEM 1A. RISK FACTORS

For a discussion of risk factors that could significantly and negatively affect our business, financial condition, results of operations, cash flows and prospects, see the disclosure under Part I, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K/A filed with the SEC on May 7, 2021. There have been no material changes from the risk factors set forth in Part I, Item 1A “Risk Factors” on Form 10-K/A for the year ended December 31, 2020.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

See the Exhibit Index below, which is incorporated by reference herein.

Exhibit Index

Exhibit No.

10.1*	Amendment to Employment Agreement between PAE Incorporated and Charles D. Peiffer
10.2*	Amendment to Employment Agreement between PAE Incorporated and Paul W. Cobb, Jr.
10.3*	Amendment to Employment Agreement between PAE Incorporated and Patricia M.C. Munchel
10.4*	Amendment to Employment Agreement between PAE Incorporated and Rene Moline
31.1	Certification by the Principal Executive Officer and Principal Financial Officer of the Company Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Principal Executive Officer and Principal Financial Officer of the Company Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 7, 2021

PAE Incorporated

By:	<u>/s/ Charles D. Peiffer</u>
Name:	Charles D. Peiffer
Title:	Interim President & Chief Executive Officer Executive Vice President & Chief Financial Officer

April 13, 2021

Dear Charlie,

This letter agreement ("Letter Agreement") sets forth certain terms related to your appointment as Interim President and Chief Executive Officer of PAE Incorporated ("PAE") and amends your Employment Agreement with PAE, dated May 5, 2020 (the "Employment Agreement"). Capitalized terms used but not defined in this Letter Agreement shall have the meaning set forth in the Employment Agreement.

For the period beginning on March 19, 2021 (the "CEO Effective Date") and ending on the date on which the Board of Directors of PAE ("Board") provides you with written notice that your services as Interim President and Chief Executive Officer shall cease (such period, the "Interim CEO Period"), you shall serve as the Interim President and Chief Executive Officer of PAE, in addition to serving as Executive Vice President and Chief Financial Officer of PAE.

During the Interim CEO Period, you shall receive Base Salary under Section 2.01 of the Employment Agreement at an annual rate of \$875,000 per year, your Target Bonus under Section 2.02 of the Employment Agreement shall be equal to 110% of such Base Salary, and you shall have a maximum bonus opportunity for above-target performance of up to 200% of such Base Salary. For the avoidance of doubt, to the extent that the Interim CEO Period includes a partial fiscal year, then the Target Bonus and maximum bonus opportunity set forth in the preceding sentence shall apply for the portion of the fiscal year during which you serve as Interim President and Chief Executive Officer, and the Target Bonus and maximum bonus opportunity in effect prior to the CEO Effective Date shall apply for the remaining portion of such fiscal year.

You acknowledge and agree that immediately following the termination of the Interim CEO Period, you shall continue to serve as Executive Vice President and Chief Financial Officer of PAE and that the Base Salary, Target Bonus and maximum bonus opportunity as defined in the Employment Agreement and in effect immediately prior to the CEO Effective Date shall apply; provided that, this Letter Agreement does not alter your status as an at-will employee, and your employment may be terminated by you or PAE at any time, subject to the terms of the Employment Agreement (as further amended below).

In addition, pursuant to this Letter Agreement, effective as of April 13, 2021 (the "Effective Date"), the Employment Agreement shall be amended such that a new Section 4.05 shall be added to your Employment Agreement to read as follows:

SECTION 4.05. Termination by PAE Other Than for Cause, Disability or Death; Termination by Executive for Good Reason Prior to March 19, 2024. Notwithstanding Section 4.03, if PAE elects to terminate Executive's employment for any reason other than Cause, Disability or death or if Executive terminates Executive's employment with PAE for Good Reason, and such termination occurs on or prior to March 18, 2024, Executive shall receive the payments and benefits set forth in this Section 4.05 in lieu of the payments and benefits set forth in Section 4.03. In the event of such termination, Executive shall be entitled to the Accrued Rights and, provided that Executive has provided a Release and the Release has become effective and irrevocable prior to the 60th day after such termination of employment, Executive shall be entitled to the following:

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(a) Cash Payments. (i) PAE shall pay to Executive an amount equal to one and one-half times the sum of Executive's then-current Base Salary and Average Bonus, payable in equal installments through the date that is 18 months after the date of Executive's termination of employment (the "Severance Period") at the same times at which and in the same manner in which Executive's Base Salary would have been payable to Executive had a termination of employment not occurred (but no less frequently than monthly) and (ii) PAE shall provide to Executive, during the fiscal year following the fiscal year in which Executive's termination of employment occurs, no later than March 15, a Pro-Rata Bonus; provided, however, that, in the case of clause (i), PAE shall (x) commence such payments on the 60th day after termination of Executive's employment, except that any payments that would have otherwise been paid to Executive following the date of the termination of employment and prior to such 60th day shall be accumulated and paid to Executive in a lump sum on such 60th day, and (y) not continue such payments at any time following either (A) breach of the provisions of Section 5.03 or 5.04 or (B) breach of the provisions of Article V (other than Section 5.03 or 5.04) that (X) is materially damaging to the business or reputation of PAE or any of its affiliates or (Y) occurs after PAE has notified Executive of a prior breach of such Article V (other than Section 5.03 or 5.04).

(b) Medical, Dental and Life Insurance Benefit Continuation. During the Severance Period, Executive and Executive's spouse and dependents (each as defined under the applicable program) shall receive the following benefits if the Executive timely and properly elects continued benefits coverage pursuant to COBRA: (x) medical and dental insurance coverage at the same benefit levels as provided to active senior management employees of PAE, for which PAE will reimburse Executive during the Severance Period, for the total amount of the monthly medical and dental insurance premiums payable by Executive for continued benefits coverage pursuant to COBRA in excess of the cost Executive paid for such coverage (on a monthly premium basis) immediately prior to such termination of employment; provided, however, that if, during the Severance Period, Executive becomes employed by a new employer that provides medical and dental coverage, PAE's continuing medical and dental coverage (and any cash payments in lieu thereof) shall become secondary to such new employer's coverage with respect to claims covered by such new employer's medical and dental plans; and (y) a monthly cash payment grossed up for taxes to permit Executive to purchase life insurance coverage at the same benefit level as currently provided to active senior management employees of PAE and at the same cost to Executive as is generally provided to active senior management employees of PAE. Notwithstanding any provision of this Agreement to the contrary, to the extent necessary to satisfy Section 105(h) of the Code, or if PAE determines it is necessary to avoid the imposition of an excise tax on PAE, PAE will be permitted to alter the manner in which medical and dental benefits are provided to Executive following termination of Executive's employment; provided that the after-tax cost to Executive of such benefits shall not be greater than the cost applicable to similarly situated executives of PAE who have not terminated employment.

(c) Outplacement. Executive shall receive reasonable outplacement services to be provided by a provider selected by Executive during the Severance Period, the cost of which shall be borne by PAE; provided, however, that, notwithstanding the foregoing, Executive shall commence using such services within 12 months of Executive's termination of employment, such outplacement services shall end not later than the last day of the second calendar year that begins after the date of termination of Executive's employment and PAE shall pay any amounts

in respect of such outplacement services not later than the last day of the third calendar year that begins after such date of termination.

(d) Equity. All of Executive's outstanding restricted stock units granted by PAE ("RSUs") and performance-based restricted stock units granted by PAE ("PSUs") shall be treated in accordance with the following:

(i) Any RSUs that would have otherwise vested within 12 months following Executive's termination of employment had Executive continued in employment with PAE shall immediately vest upon such termination of employment and shall be paid within 60 days following such termination of employment; provided that, in the event that Executive's termination of employment occurs upon or within 12 months following a Change in Control (as defined in the applicable RSU grant agreement) and the applicable RSU grant agreement provides for vesting terms more favorable than those set forth in this Section 4.05(d)(i), the terms of the applicable grant agreement shall apply.

(ii) Executive will earn a pro-rata portion of any outstanding PSUs, subject to achievement of the performance goals for the applicable performance period, each as specified in the applicable PSU award agreement(s). Such pro-rata portion will be equal to the number of PSUs that would otherwise vest as of the end of the performance period, based on achievement of the performance goals, multiplied by a fraction, the numerator of which is the number of full calendar days during the performance period prior to Executive's date of termination and the denominator of which is the total number of days in the performance period. Payment of such PSUs (if any) shall be made to Executive at the time set forth in the applicable PSU award agreement(s); provided that, in the event that Executive's termination of employment occurs upon or following a Change in Control (as defined in the applicable PSU grant agreement) or a Change in Control occurs during the applicable performance period and the applicable PSU grant agreement provides for vesting terms more favorable than those set forth in this Section 4.05(d)(ii), the terms of the applicable grant agreement shall apply. Notwithstanding the foregoing provisions of this Section 4.05(d)(ii), to the extent that as of the date of Executive's termination of employment, any of Executive's outstanding PSUs were granted prior to April 1, 2021, then, in lieu of the foregoing provisions of this Section 4.05(d)(ii), Executive's PSUs shall be treated as though Executive's employment terminated on account of "Retirement" in accordance with the terms of the applicable grant agreement(s) in effect as of the date hereof.

(iii) In the event of any inconsistency between the terms of the applicable RSU or PSU grant agreement and the terms of this Section 4.05(d), the terms of this Section 4.05(d) shall govern.

(e) Release. For the avoidance of doubt, (x) the Release shall not require Executive to release any rights to post-termination payments or benefits afforded to him by this Agreement, or any vested benefits or rights pursuant to the terms of PAE's or its affiliates' benefit plans or programs, and (y) if the Release does not become effective and irrevocable within 60 days following the date of Executive's termination of employment pursuant to this Section 4.05(e), PAE shall not be obligated to make any payments or provide any benefits under Section 4.05(a), (b), (c), or (d) above (or, for the avoidance of doubt, Section 4.03(a), (b), or (c)) and Executive shall only be entitled to the Accrued Rights.

All other terms of your Employment Agreement shall remain unchanged except as modified herein.

PAE INCORPORATED,

By: _____

Name: Paul W. Cobb, Jr.

Title: Executive Vice President, General Counsel
and Secretary

Agreed to and Acknowledged by:

Charles D. Peiffer

Date

April 13, 2021

Dear Whit,

This letter agreement ("Letter Agreement"), effective as of April 13, 2021 (the "Effective Date") amends your Employment Agreement with PAE Incorporated ("PAE"), dated May 5, 2020 (the "Employment Agreement"). Capitalized terms used but not defined in this Letter Agreement shall have the meaning set forth in the Employment Agreement.

As of the Effective Date, your Employment Agreement shall be amended such that a new Section 4.05 shall be added to your Employment Agreement to read as follows:

SECTION 4.05. Termination by PAE Other Than for Cause, Disability or Death; Termination by Executive for Good Reason Prior to March 19, 2024. Notwithstanding Section 4.03, if PAE elects to terminate Executive's employment for any reason other than Cause, Disability or death or if Executive terminates Executive's employment with PAE for Good Reason, and such termination occurs on or prior to March 18, 2024, Executive shall receive the payments and benefits set forth in this Section 4.05 in lieu of the payments and benefits set forth in Section 4.03. In the event of such termination, Executive shall be entitled to the Accrued Rights and, provided that Executive has provided a Release and the Release has become effective and irrevocable prior to the 60th day after such termination of employment, Executive shall be entitled to the following:

(a) Cash Payments. (i) PAE shall pay to Executive an amount equal to one and one-half times the sum of Executive's then-current Base Salary and Average Bonus, payable in equal installments through the date that is 18 months after the date of Executive's termination of employment (the "Severance Period") at the same times at which and in the same manner in which Executive's Base Salary would have been payable to Executive had a termination of employment not occurred (but no less frequently than monthly) and (ii) PAE shall provide to Executive, during the fiscal year following the fiscal year in which Executive's termination of employment occurs, no later than March 15, a Pro-Rata Bonus; provided, however, that, in the case of clause (i), PAE shall (x) commence such payments on the 60th day after termination of Executive's employment, except that any payments that would have otherwise been paid to Executive following the date of the termination of employment and prior to such 60th day shall be accumulated and paid to Executive in a lump sum on such 60th day, and (y) not continue such payments at any time following either (A) breach of the provisions of Section 5.03 or 5.04 or (B) breach of the provisions of Article V (other than Section 5.03 or 5.04) that (X) is materially damaging to the business or reputation of PAE or any of its affiliates or (Y) occurs after PAE has notified Executive of a prior breach of such Article V (other than Section 5.03 or 5.04).

(b) Medical, Dental and Life Insurance Benefit Continuation. During the Severance Period, Executive and Executive's spouse and dependents (each as defined under the applicable program) shall receive the following benefits if the Executive timely and properly elects continued benefits coverage pursuant to COBRA: (x) medical and dental insurance coverage at the same benefit levels as provided to active senior management employees of PAE, for which PAE will reimburse Executive during the Severance Period, for the total amount of the monthly medical and dental insurance premiums payable by Executive for continued benefits coverage pursuant to COBRA in excess of the cost Executive paid for such coverage (on a monthly premium basis) immediately prior to such termination of employment; provided, however, that if,

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during the Severance Period, Executive becomes employed by a new employer that provides medical and dental coverage, PAE's continuing medical and dental coverage (and any cash payments in lieu thereof) shall become secondary to such new employer's coverage with respect to claims covered by such new employer's medical and dental plans; and (y) a monthly cash payment grossed up for taxes to permit Executive to purchase life insurance coverage at the same benefit level as currently provided to active senior management employees of PAE and at the same cost to Executive as is generally provided to active senior management employees of PAE. Notwithstanding any provision of this Agreement to the contrary, to the extent necessary to satisfy Section 105(h) of the Code, or if PAE determines it is necessary to avoid the imposition of an excise tax on PAE, PAE will be permitted to alter the manner in which medical and dental benefits are provided to Executive following termination of Executive's employment; provided that the after-tax cost to Executive of such benefits shall not be greater than the cost applicable to similarly situated executives of PAE who have not terminated employment.

(c) Outplacement. Executive shall receive reasonable outplacement services to be provided by a provider selected by Executive during the Severance Period, the cost of which shall be borne by PAE; provided, however, that, notwithstanding the foregoing, Executive shall commence using such services within 12 months of Executive's termination of employment, such outplacement services shall end not later than the last day of the second calendar year that begins after the date of termination of Executive's employment and PAE shall pay any amounts in respect of such outplacement services not later than the last day of the third calendar year that begins after such date of termination.

(d) Equity. All of Executive's outstanding restricted stock units granted by PAE ("RSUs") and performance-based restricted stock units granted by PAE ("PSUs") shall be treated in accordance with the following:

(i) Any RSUs that would have otherwise vested within 12 months following Executive's termination of employment had Executive continued in employment with PAE shall immediately vest upon such termination of employment and shall be paid within 60 days following such termination of employment; provided that, in the event that Executive's termination of employment occurs upon or within 12 months following a Change in Control (as defined in the applicable RSU grant agreement) and the applicable RSU grant agreement provides for vesting terms more favorable than those set forth in this Section 4.05(d)(i), the terms of the applicable grant agreement shall apply.

(ii) Executive will earn a pro-rata portion of any outstanding PSUs, subject to achievement of the performance goals for the applicable performance period, each as specified in the applicable PSU award agreement(s). Such pro-rata portion will be equal to the number of PSUs that would otherwise vest as of the end of the performance period, based on achievement of the performance goals, multiplied by a fraction, the numerator of which is the number of full calendar days during the performance period prior to Executive's date of termination and the denominator of which is the total number of days in the performance period. Payment of such PSUs (if any) shall be made to Executive at the time set forth in the applicable PSU award agreement(s); provided that, in the event that Executive's termination of employment occurs upon or following a Change in Control (as defined in the applicable PSU grant agreement) or a Change in Control occurs during the applicable performance period and the applicable PSU grant agreement provides for vesting terms more favorable than those set forth in this Section

4.05(d)(ii), the terms of the applicable grant agreement shall apply. Notwithstanding the foregoing provisions of this Section 4.05(d)(ii), to the extent that as of the date of Executive's termination of employment, any of Executive's outstanding PSUs were granted prior to April 1, 2021, then, in lieu of the foregoing provisions of this Section 4.05(d)(ii), Executive's PSUs shall be treated as though Executive's employment terminated on account of "Retirement" in accordance with the terms of the applicable grant agreement(s) in effect as of the date hereof.

(iii) In the event of any inconsistency between the terms of the applicable RSU or PSU grant agreement and the terms of this Section 4.05(d), the terms of this Section 4.05(d) shall govern.

(e) Release. For the avoidance of doubt, (x) the Release shall not require Executive to release any rights to post-termination payments or benefits afforded to him by this Agreement, or any vested benefits or rights pursuant to the terms of PAE's or its affiliates' benefit plans or programs, and (y) if the Release does not become effective and irrevocable within 60 days following the date of Executive's termination of employment pursuant to this Section 4.05(e), PAE shall not be obligated to make any payments or provide any benefits under Section 4.05(a), (b), (c), or (d) above (or, for the avoidance of doubt, Section 4.03(a), (b), or (c)) and Executive shall only be entitled to the Accrued Rights.

All other terms of your Employment Agreement shall remain unchanged except as modified herein.

PAE INCORPORATED,

By: _____

Name: Charles D. Peiffer

Title: Interim President and Chief Executive Officer; Executive Vice President and Chief Financial Officer

Agreed to and Acknowledged by:

Paul W. Cobb, Jr.

Date

April 13, 2021

Dear Patricia,

This letter agreement ("Letter Agreement"), effective as of April 13, 2021 (the "Effective Date") amends your Employment Agreement with PAE Incorporated ("PAE"), dated May 5, 2020 (the "Employment Agreement"). Capitalized terms used but not defined in this Letter Agreement shall have the meaning set forth in the Employment Agreement.

As of the Effective Date, your Employment Agreement shall be amended such that a new Section 4.05 shall be added to your Employment Agreement to read as follows:

SECTION 4.05. Termination by PAE Other Than for Cause, Disability or Death; Termination by Executive for Good Reason Prior to March 19, 2024. Notwithstanding Section 4.03, if PAE elects to terminate Executive's employment for any reason other than Cause, Disability or death or if Executive terminates Executive's employment with PAE for Good Reason, and such termination occurs on or prior to March 18, 2024, Executive shall receive the payments and benefits set forth in this Section 4.05 in lieu of the payments and benefits set forth in Section 4.03. In the event of such termination, Executive shall be entitled to the Accrued Rights and, provided that Executive has provided a Release and the Release has become effective and irrevocable prior to the 60th day after such termination of employment, Executive shall be entitled to the following:

(a) Cash Payments. (i) PAE shall pay to Executive an amount equal to one and one-half times the sum of Executive's then-current Base Salary and Average Bonus, payable in equal installments through the date that is 18 months after the date of Executive's termination of employment (the "Severance Period") at the same times at which and in the same manner in which Executive's Base Salary would have been payable to Executive had a termination of employment not occurred (but no less frequently than monthly) and (ii) PAE shall provide to Executive, during the fiscal year following the fiscal year in which Executive's termination of employment occurs, no later than March 15, a Pro-Rata Bonus; provided, however, that, in the case of clause (i), PAE shall (x) commence such payments on the 60th day after termination of Executive's employment, except that any payments that would have otherwise been paid to Executive following the date of the termination of employment and prior to such 60th day shall be accumulated and paid to Executive in a lump sum on such 60th day, and (y) not continue such payments at any time following either (A) breach of the provisions of Section 5.03 or 5.04 or (B) breach of the provisions of Article V (other than Section 5.03 or 5.04) that (X) is materially damaging to the business or reputation of PAE or any of its affiliates or (Y) occurs after PAE has notified Executive of a prior breach of such Article V (other than Section 5.03 or 5.04).

(b) Medical, Dental and Life Insurance Benefit Continuation. During the Severance Period, Executive and Executive's spouse and dependents (each as defined under the applicable program) shall receive the following benefits if the Executive timely and properly elects continued benefits coverage pursuant to COBRA: (x) medical and dental insurance coverage at the same benefit levels as provided to active senior management employees of PAE, for which PAE will reimburse Executive during the Severance Period, for the total amount of the monthly medical and dental insurance premiums payable by Executive for continued benefits coverage pursuant to COBRA in excess of the cost Executive paid for such coverage (on a monthly premium basis) immediately prior to such termination of employment; provided, however, that if,

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during the Severance Period, Executive becomes employed by a new employer that provides medical and dental coverage, PAE's continuing medical and dental coverage (and any cash payments in lieu thereof) shall become secondary to such new employer's coverage with respect to claims covered by such new employer's medical and dental plans; and (y) a monthly cash payment grossed up for taxes to permit Executive to purchase life insurance coverage at the same benefit level as currently provided to active senior management employees of PAE and at the same cost to Executive as is generally provided to active senior management employees of PAE. Notwithstanding any provision of this Agreement to the contrary, to the extent necessary to satisfy Section 105(h) of the Code, or if PAE determines it is necessary to avoid the imposition of an excise tax on PAE, PAE will be permitted to alter the manner in which medical and dental benefits are provided to Executive following termination of Executive's employment; provided that the after-tax cost to Executive of such benefits shall not be greater than the cost applicable to similarly situated executives of PAE who have not terminated employment.

(c) Outplacement. Executive shall receive reasonable outplacement services to be provided by a provider selected by Executive during the Severance Period, the cost of which shall be borne by PAE; provided, however, that, notwithstanding the foregoing, Executive shall commence using such services within 12 months of Executive's termination of employment, such outplacement services shall end not later than the last day of the second calendar year that begins after the date of termination of Executive's employment and PAE shall pay any amounts in respect of such outplacement services not later than the last day of the third calendar year that begins after such date of termination.

(d) Equity. All of Executive's outstanding restricted stock units granted by PAE ("RSUs") and performance-based restricted stock units granted by PAE ("PSUs") shall be treated in accordance with the following:

(i) Any RSUs that would have otherwise vested within 12 months following Executive's termination of employment had Executive continued in employment with PAE shall immediately vest upon such termination of employment and shall be paid within 60 days following such termination of employment; provided that, in the event that Executive's termination of employment occurs upon or within 12 months following a Change in Control (as defined in the applicable RSU grant agreement) and the applicable RSU grant agreement provides for vesting terms more favorable than those set forth in this Section 4.05(d)(i), the terms of the applicable grant agreement shall apply.

(ii) Executive will earn a pro-rata portion of any outstanding PSUs, subject to achievement of the performance goals for the applicable performance period, each as specified in the applicable PSU award agreement(s). Such pro-rata portion will be equal to the number of PSUs that would otherwise vest as of the end of the performance period, based on achievement of the performance goals, multiplied by a fraction, the numerator of which is the number of full calendar days during the performance period prior to Executive's date of termination and the denominator of which is the total number of days in the performance period. Payment of such PSUs (if any) shall be made to Executive at the time set forth in the applicable PSU award agreement(s); provided that, in the event that Executive's termination of employment occurs upon or following a Change in Control (as defined in the applicable PSU grant agreement) or a Change in Control occurs during the applicable performance period and the applicable PSU grant agreement provides for vesting terms more favorable than those set forth in this Section

4.05(d)(ii), the terms of the applicable grant agreement shall apply. Notwithstanding the foregoing provisions of this Section 4.05(d)(ii), to the extent that as of the date of Executive's termination of employment, any of Executive's outstanding PSUs were granted prior to April 1, 2021, then, in lieu of the foregoing provisions of this Section 4.05(d)(ii), Executive's PSUs shall be treated as though Executive's employment terminated on account of "Retirement" in accordance with the terms of the applicable grant agreement(s) in effect as of the date hereof.

(iii) In the event of any inconsistency between the terms of the applicable RSU or PSU grant agreement and the terms of this Section 4.05(d), the terms of this Section 4.05(d) shall govern.

(e) Release. For the avoidance of doubt, (x) the Release shall not require Executive to release any rights to post-termination payments or benefits afforded to him by this Agreement, or any vested benefits or rights pursuant to the terms of PAE's or its affiliates' benefit plans or programs, and (y) if the Release does not become effective and irrevocable within 60 days following the date of Executive's termination of employment pursuant to this Section 4.05(e), PAE shall not be obligated to make any payments or provide any benefits under Section 4.05(a), (b), (c), or (d) above (or, for the avoidance of doubt, Section 4.03(a), (b), or (c)) and Executive shall only be entitled to the Accrued Rights.

All other terms of your Employment Agreement shall remain unchanged except as modified herein.

PAE INCORPORATED,

By: _____
Name: Paul W. Cobb, Jr.
Title: Executive Vice President, General Counsel
and Secretary

Agreed to and Acknowledged by:

Patricia M.C. Munchel

Date

April 13, 2021

Dear Chico,

This letter agreement ("Letter Agreement"), effective as of April 13, 2021 (the "Effective Date") amends your Employment Agreement with PAE Incorporated ("PAE"), dated May 5, 2020 (the "Employment Agreement"). Capitalized terms used but not defined in this Letter Agreement shall have the meaning set forth in the Employment Agreement.

As of the Effective Date, your Employment Agreement shall be amended such that a new Section 4.05 shall be added to your Employment Agreement to read as follows:

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(a) Cash Payments. (i) PAE shall pay to Executive an amount equal to one and one-half times the sum of Executive's then-current Base Salary and Average Bonus, payable in equal installments through the date that is 18 months after the date of Executive's termination of employment (the "Severance Period") at the same times at which and in the same manner in which Executive's Base Salary would have been payable to Executive had a termination of employment not occurred (but no less frequently than monthly) and (ii) PAE shall provide to Executive, during the fiscal year following the fiscal year in which Executive's termination of employment occurs, no later than March 15, a Pro-Rata Bonus; provided, however, that, in the case of clause (i), PAE shall (x) commence such payments on the 60th day after termination of Executive's employment, except that any payments that would have otherwise been paid to Executive following the date of the termination of employment and prior to such 60th day shall be accumulated and paid to Executive in a lump sum on such 60th day, and (y) not continue such payments at any time following either (A) breach of the provisions of Section 5.03 or 5.04 or (B) breach of the provisions of Article V (other than Section 5.03 or 5.04) that (X) is materially damaging to the business or reputation of PAE or any of its affiliates or (Y) occurs after PAE has notified Executive of a prior breach of such Article V (other than Section 5.03 or 5.04).

(b) Medical, Dental and Life Insurance Benefit Continuation. During the Severance Period, Executive and Executive's spouse and dependents (each as defined under the applicable program) shall receive the following benefits if the Executive timely and properly elects continued benefits coverage pursuant to COBRA: (x) medical and dental insurance coverage at the same benefit levels as provided to active senior management employees of PAE, for which PAE will reimburse Executive during the Severance Period, for the total amount of the monthly medical and dental insurance premiums payable by Executive for continued benefits coverage pursuant to COBRA in excess of the cost Executive paid for such coverage (on a monthly premium basis) immediately prior to such termination of employment; provided, however, that if,

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during the Severance Period, Executive becomes employed by a new employer that provides medical and dental coverage, PAE's continuing medical and dental coverage (and any cash payments in lieu thereof) shall become secondary to such new employer's coverage with respect to claims covered by such new employer's medical and dental plans; and (y) a monthly cash payment grossed up for taxes to permit Executive to purchase life insurance coverage at the same benefit level as currently provided to active senior management employees of PAE and at the same cost to Executive as is generally provided to active senior management employees of PAE. Notwithstanding any provision of this Agreement to the contrary, to the extent necessary to satisfy Section 105(h) of the Code, or if PAE determines it is necessary to avoid the imposition of an excise tax on PAE, PAE will be permitted to alter the manner in which medical and dental benefits are provided to Executive following termination of Executive's employment; provided that the after-tax cost to Executive of such benefits shall not be greater than the cost applicable to similarly situated executives of PAE who have not terminated employment.

(c) Outplacement. Executive shall receive reasonable outplacement services to be provided by a provider selected by Executive during the Severance Period, the cost of which shall be borne by PAE; provided, however, that, notwithstanding the foregoing, Executive shall commence using such services within 12 months of Executive's termination of employment, such outplacement services shall end not later than the last day of the second calendar year that begins after the date of termination of Executive's employment and PAE shall pay any amounts in respect of such outplacement services not later than the last day of the third calendar year that begins after such date of termination.

(d) Equity. All of Executive's outstanding restricted stock units granted by PAE ("RSUs") and performance-based restricted stock units granted by PAE ("PSUs") shall be treated in accordance with the following:

(i) Any RSUs that would have otherwise vested within 12 months following Executive's termination of employment had Executive continued in employment with PAE shall immediately vest upon such termination of employment and shall be paid within 60 days following such termination of employment; provided that, in the event that Executive's termination of employment occurs upon or within 12 months following a Change in Control (as defined in the applicable RSU grant agreement) and the applicable RSU grant agreement provides for vesting terms more favorable than those set forth in this Section 4.05(d)(i), the terms of the applicable grant agreement shall apply.

(ii) Executive will earn a pro-rata portion of any outstanding PSUs, subject to achievement of the performance goals for the applicable performance period, each as specified in the applicable PSU award agreement(s). Such pro-rata portion will be equal to the number of PSUs that would otherwise vest as of the end of the performance period, based on achievement of the performance goals, multiplied by a fraction, the numerator of which is the number of full calendar days during the performance period prior to Executive's date of termination and the denominator of which is the total number of days in the performance period. Payment of such PSUs (if any) shall be made to Executive at the time set forth in the applicable PSU award agreement(s); provided that, in the event that Executive's termination of employment occurs upon or following a Change in Control (as defined in the applicable PSU grant agreement) or a Change in Control occurs during the applicable performance period and the applicable PSU grant agreement provides for vesting terms more favorable than those set forth in this Section

4.05(d)(ii), the terms of the applicable grant agreement shall apply. Notwithstanding the foregoing provisions of this Section 4.05(d)(ii), to the extent that as of the date of Executive's termination of employment, any of Executive's outstanding PSUs were granted prior to April 1, 2021, then, in lieu of the foregoing provisions of this Section 4.05(d)(ii), Executive's PSUs shall be treated as though Executive's employment terminated on account of "Retirement" in accordance with the terms of the applicable grant agreement(s) in effect as of the date hereof.

(iii) In the event of any inconsistency between the terms of the applicable RSU or PSU grant agreement and the terms of this Section 4.05(d), the terms of this Section 4.05(d) shall govern.

(e) Release. For the avoidance of doubt, (x) the Release shall not require Executive to release any rights to post-termination payments or benefits afforded to him by this Agreement, or any vested benefits or rights pursuant to the terms of PAE's or its affiliates' benefit plans or programs, and (y) if the Release does not become effective and irrevocable within 60 days following the date of Executive's termination of employment pursuant to this Section 4.05(e), PAE shall not be obligated to make any payments or provide any benefits under Section 4.05(a), (b), (c), or (d) above (or, for the avoidance of doubt, Section 4.03(a), (b), or (c)) and Executive shall only be entitled to the Accrued Rights.

All other terms of your Employment Agreement shall remain unchanged except as modified herein.

PAE INCORPORATED,

By: _____
Name: Paul W. Cobb, Jr.
Title: Executive Vice President, General Counsel
and Secretary

Agreed to and Acknowledged by:

Rene (Chico) Moline

Date

Section 302 Certification

I, Charles D. Peiffer, certify that:

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

Date: May 7, 2021

/s/ Charles D. Peiffer

Charles D. Peiffer
Interim President & Chief Executive Officer Executive Vice
President & Chief Financial Officer (Principal Executive Officer
and Principal Financial Officer)

Section 906 Certification

In connection with the quarterly report on Form 10-Q of PAE Incorporated (the "Company") for the period ended March 28, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned President and Chief Executive Officer, Executive Vice President and Chief Financial Officer of the Company certifies, to the best of his knowledge and belief pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021

/s/

Charles D. Peiffer

**Interim President & Chief Executive Officer Executive Vice
President & Chief Financial Officer (Principal Executive Officer and
Principal Financial Officer)**