

Årsredovisning
för
KMT Waterjet AB
556240-8327

Räkenskapsåret
2023

Fastställelseintyg

Jag intygar att resultaträkningen och balansräkningen har fastställts på årsstämma 2024-06-26.
Årsstämman beslöt att godkänna styrelsens förslag till vinstdisposition.
Jag intygar att innehållet i dessa elektroniska handlingar överensstämmer med originalen och att originalen undertecknats av samtliga personer som enligt lag ska underteckna dessa.

Elektroniskt underskriven av:

Jonas Persson, Styrelseledamot
2024-07-31

Styrelsen och verkställande direktören för KMT Waterjet AB avger följande årsredovisning för räkenskapsåret 2023.

Årsredovisningen är upprättad i svenska kronor, SEK. Om inte annat särskilt anges, redovisas alla belopp i tusentals kronor (Tkr). Uppgifter inom parentes avser föregående år.

Förvaltningsberättelse

Information om verksamheten

Bolaget bedriver, via dotterbolag i Tyskland och Kina, tillverkning och försäljning av vattenskärningsutrustning. Bolaget fungerar som holdingbolag och sköter finansieringen för dotterbolagen. Med stöd av ÄRL 7 kap 2§ upprättar KMT Waterjet AB ingen koncernredovisning, utan hänvisar till den koncernredovisning som upprättas af Shape Technologies Group Inc, org nr 46-3275009 med säte i Delaware, USA.

Företaget har sitt säte i Stockholm.

Ägarförhållanden

KMT Waterjet AB är ett helägt dotterbolag till WJG Holding AB, org. nr. 556241-6775. Moderbolaget WJG Holding AB ingår i koncernen som ägs av American Industrial Partners.

Flerårsöversikt (Tkr)	2023	2022	2021	2020	2019
Nettoomsättning	0	0	0	0	0
Resultat efter finansiella poster	490	-295	203	998	-68
Balansomslutning	307 705	302 199	270 685	253 893	278 634
Soliditet (%)	19,1	19,4	21,7	23,1	21,1

För definitioner av nyckeltal, se Redovisnings- och värderingsprinciper.

Förändringar i eget kapital

	Aktie- kapital	Reserv- fond	Balanserat resultat	Årets resultat	Totalt
Belopp vid årets ingång	10 000	2 000	46 710	0	58 710
Årets resultat				-12	-12
Belopp vid årets utgång	10 000	2 000	46 710	-12	58 698

Förslag till vinstdisposition

Styrelsen föreslår att till förfogande stående vinstmedel (kronor):

balanserad vinst	46 709 553
årets förlust	-12 453
	46 697 100
disponeras så att	
i ny räkning överföres	46 697 100
	46 697 100

Företagets resultat och ställning i övrigt framgår av efterföljande resultat- och balansräkning med noter. Alla belopp anges i tusentals kronor om inget annat anges

Resultaträkning

Tkr

	Not	2023-01-01 -2023-12-31	2022-01-01 -2022-12-31
Övriga rörelseintäkter		50 50	104 104
Rörelsens kostnader			
Övriga externa kostnader		-74	-40
Övriga rörelsekostnader		-192	-63
		-266	-103
Rörelseresultat		-217	1
Resultat från finansiella poster			
Resultat från övriga värdepapper och fordringar som är anläggningstillgångar	2	-7 793	29 242
Övriga ränteintäkter och liknande resultatposter		22 322	5 291
Räntekostnader och liknande resultatposter		-13 823	-34 829
		707	-296
Resultat efter finansiella poster		490	-295
Bokslutsdispositioner	3	-503	295
Resultat före skatt		-12	0
Årets resultat		-12	0

Balansräkning

Tkr

Not

2023-12-31

2022-12-31

TILLGÅNGAR

Anläggningstillgångar

Finansiella anläggningstillgångar

Andelar i koncernföretag

4

67 797

67 797

Fordringar hos koncernföretag

5

214 036

221 829

281 833

289 626

Summa anläggningstillgångar

281 833

289 626

Omsättningstillgångar

Kortfristiga fordringar

Fordringar hos koncernföretag

24 977

12 528

Övriga fordringar

3

3

24 980

12 531

Kassa och bank

892

42

Summa omsättningstillgångar

25 872

12 573

SUMMA TILLGÅNGAR

307 705

302 199

Balansräkning

Tkr

Not

2023-12-31

2022-12-31

EGET KAPITAL OCH SKULDER

Eget kapital

6

Bundet eget kapital

Aktiekapital

10 000

10 000

Reservfond

2 000

2 000

12 000

12 000

Fritt eget kapital

Balanserad vinst eller förlust

46 710

46 710

Årets resultat

-12

0

46 698

46 710

Summa eget kapital

58 698

58 710

Långfristiga skulder

7

Skulder till koncernföretag

217 129

225 034

Summa långfristiga skulder

217 129

225 034

Kortfristiga skulder

Leverantörsskulder

16

0

Skulder till koncernföretag

31 842

18 434

Upplupna kostnader och förutbetalda intäkter

20

21

Summa kortfristiga skulder

31 878

18 455

SUMMA EGET KAPITAL OCH SKULDER

307 705

302 199

Noter

Tkr

Not 1 Redovisnings- och värderingsprinciper

Allmänna upplysningar

Årsredovisningen är upprättad i enlighet med årsredovisningslagen och BFNAR 2012:1 Årsredovisning och koncernredovisning (K3).

Fordringar och skulder i utländsk valuta har värderats till balansdagens kurs. Kursvinster och kursförluster på rörelsefordringar och rörelseskulder redovisas i rörelseresultatet medan kursvinster och kursförluster på finansiella fordringar och skulder redovisas som finansiella poster.

Redovisningsprinciperna är oförändrade jämfört med föregående år.

Intäktsredovisning

Intäkter har tagits upp till verkligt värde av vad som erhållits eller kommer att erhållas och redovisas i den omfattning det är sannolikt att de ekonomiska fördelarna kommer att tillgodogöras bolaget och intäkterna kan beräknas på ett tillförlitligt sätt.

Finansiella instrument

Finansiella instrument värderas utifrån anskaffningsvärdet. Instrumentet redovisas i balansräkningen när bolaget blir part i instrumentets avtalsmässiga villkor. Finansiella tillgångar tas bort från balansräkningen när rätten att erhålla kassaflöden från instrumentet har löpt ut eller överförts och bolaget har överfört i stort sett alla risker och förmåner som är förknippade med äganderätten. Finansiella skulder tas bort från balansräkningen när förpliktelserna har reglerats eller på annat sätt upphört.

Andelar i dotterföretag

Andelar i dotterföretag redovisas till anskaffningsvärde efter avdrag för eventuella nedskrivningar. I anskaffningsvärdet ingår köpeskillingen som erlagts för aktierna samt förvärvskostnader. Eventuella kapitaltillskott läggs till anskaffningsvärdet när de uppkommer.

Kundfordringar/kortfristiga fordringar

Kundfordringar och kortfristiga fordringar redovisas som omsättningstillgångar till det belopp som förväntas bli inbetalt efter avdrag för individuellt bedömda osäkra fordringar.

Låneskulder och leverantörsskulder

Låneskulder och leverantörsskulder redovisas initialt till anskaffningsvärde efter avdrag för transaktionskostnader. Skiljer sig det redovisade beloppet från det belopp som ska återbetalas vid förfallotidpunkten periodiseras mellanskillnaden som räntekostnad över lånets löptid med hjälp av instrumentets effektivränta. Härigenom överensstämmer vid förfallotidpunkten det redovisade beloppet och det belopp som ska återbetalas.

Nedskrivningsprövning av finansiella anläggningstillgångar

Vid varje balansdag bedöms om det finns indikationer på nedskrivningsbehov av någon av de finansiella anläggningstillgångarna. Nedskrivning sker om värdenedgången bedöms vara bestående och provas individuellt.

Inkomstskatter

Total skatt utgörs av aktuell skatt och uppskjuten skatt. Skatter redovisas i resultaträkningen, utom då underliggande transaktion redovisas direkt mot eget kapital varvid tillhörande skatteeffekter redovisas i eget kapital.

Aktuell skatt

Aktuell skatt avser inkomstskatt för innevarande räkenskapsår samt den del av tidigare räkenskapsårs inkomstskatt som ännu inte redovisats. Aktuell skatt beräknas utifrån den skattesats som gäller per balansdagen.

Uppskjuten skatt

Uppskjuten skatt är inkomstskatt som avser framtida räkenskapsår till följd av tidigare händelser. Redovisning sker enligt balansräkningsmetoden. Enligt denna metod redovisas uppskjutna skatteskulder och uppskjutna skattefordringar på temporära skillnader som uppstår mellan bokförda respektive skattemässiga värden för tillgångar och skulder samt för övriga skattemässiga avdrag eller underskott.

Uppskjutna skattefordringar netto redovisas mot uppskjutna skatteskulder endast om de kan betalas med ett nettobelopp. Uppskjuten skatt beräknas utifrån gällande skattesats på balansdagen. Effekter av förändringar i gällande skattesatser resultatförs i den period förändringen lagstadsats. Uppskjuten skattefordran redovisas som finansiell anläggningstillgång och uppskjuten skatteskuld som avsättning.

Uppskjuten skattefordran avseende underskottsavdrag eller andra framtida skattemässiga avdrag redovisas i den omfattning det är sannolikt att avdragen kan avräknas mot framtida skattemässiga överskott.

På grund av sambandet mellan redovisning och beskattning särredovisas inte den uppskjutna skatteskulden som är hänförlig till obeskattade reserver.

Nyckeltalsdefinitioner

Nettoomsättning

Rörelsens huvudintäkter, fakturerade kostnader, sidointäkter samt intäktskorrigeringar.

Resultat efter finansiella poster

Resultat efter finansiella intäkter och kostnader men före bokslutsdispositioner och skatter.

Balansomslutning

Företagets samlade tillgångar.

Soliditet (%)

Justerat eget kapital (eget kapital och obeskattade reserver med avdrag för uppskjuten skatt) i procent av balansomslutning.

Not 2 Resultat från övriga värdepapper och fordringar som är anläggningstillgångar

	2023	2022
Valutakurseffekt på långfristiga fordringar	-7 793	29 242
	-7 793	29 242

Not 3 Bokslutsdispositioner

	2023	2022
Lämnade koncernbidrag	-503	0
Erhållna koncernbidrag	0	295
	-503	295

Not 4 Andelar i koncernföretag

	2023-12-31	2022-12-31
Ingående anskaffningsvärden	70 583	70 583
Utgående ackumulerade anskaffningsvärden	70 583	70 583
Ingående nedskrivningar	-2 786	-2 786
Utgående ackumulerade nedskrivningar	-2 786	-2 786
Utgående redovisat värde	67 797	67 797

Not 5 Fordringar hos koncernföretag

	2023-12-31	2022-12-31
Ingående anskaffningsvärden	221 829	192 587
Förändrade valutakurser	-7 793	29 242
Utgående ackumulerade anskaffningsvärden	214 036	221 829
Utgående redovisat värde	214 036	221 829

Not 6 Disposition av vinst eller förlust

2023-12-31

Förslag till vinstdisposition

Styrelsen föreslår att till förfogande stående vinstmedel:

balanserad vinst	46 710
årets förlust	-12
	46 697
disponeras så att	
i ny räkning överföres	46 697
	46 697

Not 7 Långfristiga skulder

Inga lån förfaller senare än fem år efter balansdagen

Not 9 Väsentliga händelser efter räkenskapsårets slut

Inga väsentliga händelser har noterats efter räkenskapsårets slut

Ronneby 2024-06-26

Antonino LaDuca
Antonino LaDuca
Ordförande

Jonas Persson
Jonas Persson
Verkställande direktör

Vår revisionsberättelse har lämnats 2024-06-26

RSM Stockholm AB

Malin Lanneborn
Malin Lanneborn
Auktoriserad revisor

REVISIONSBERÄTTELSE

Till bolagsstämman i KMT WaterJet AB, org.nr 556240-8327

Rapport om årsredovisningen

Uttalanden

Vi har utfört en revision av årsredovisningen för KMT WaterJet AB för räkenskapsåret 1 januari 2023 till 31 december 2023.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av KMT WaterJet ABs finansiella ställning per den 31 december 2023 och av dess finansiella resultat för året enligt årsredovisningslagen.

Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet "Revisorns ansvar". Vi är oberoende i förhållande till KMT WaterJet AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen och verkställande direktören som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen och verkställande direktören ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen och verkställande direktören för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen och verkställande direktören avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ till att göra något av detta.

Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

En ytterligare beskrivning av vårt ansvar för revisionen av årsredovisningen finns på Revisorsinspektionens webbplats:

www.revisorsinspektionen.se/revisornsansvar. Denna beskrivning är en del av revisionsberättelsen.

Rapport om andra krav enligt lagar och andra författningar

Uttalanden

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens och verkställande direktörens förvaltning för KMT WaterJet AB för räkenskapsåret 1 januari 2023 till 31 december 2023 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet "Revisorns ansvar". Vi är oberoende i förhållande till KMT WaterJet AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt. Verkställande direktören ska sköta den löpande förvaltningen enligt styrelsens riktlinjer och anvisningar och bland annat vidta de åtgärder som är nödvändiga för att bolagets bokföring ska fullgöras i överensstämmelse med lag och för att medelsförvaltningen ska skötas på ett betryggande sätt.

Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot eller verkställande direktören i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller

- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

En ytterligare beskrivning av vårt ansvar för revisionen av förvaltningen finns på Revisorsinspektionens webbplats:

www.revisorsinspektionen.se/revisornsansvar. Denna beskrivning är en del av revisionsberättelsen.

Stockholm den 26 juni 2024

RSM Stockholm AB

Malin Lanneborn
Malin Lanneborn
Auktoriserad revisor

SHAPE

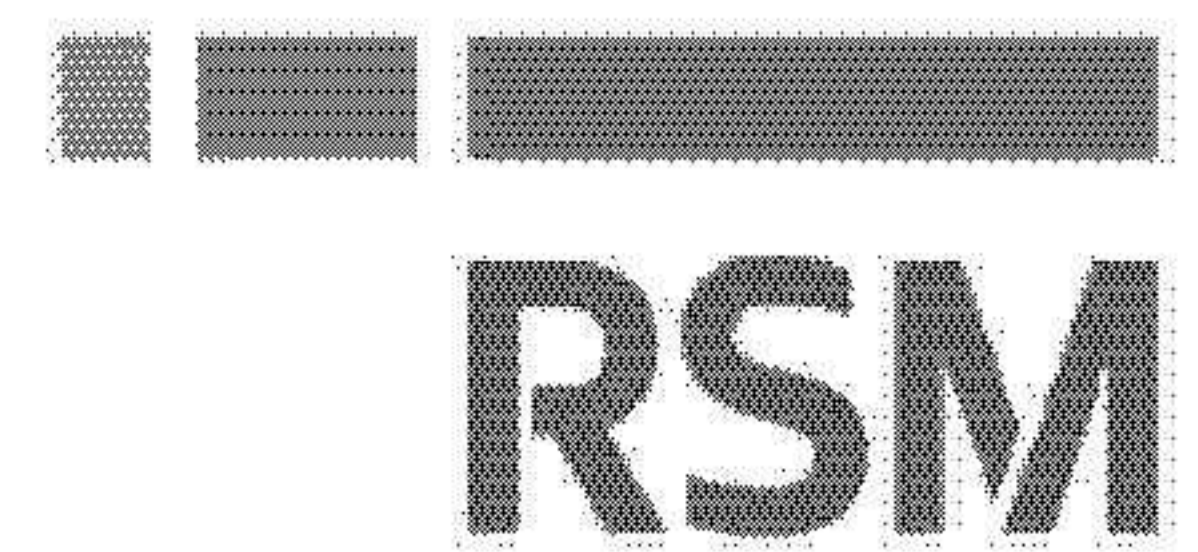
TECHNOLOGIES GROUP

SHAPE TECHNOLOGIES GROUP, INC.

**ANNUAL REPORT FOR THE YEAR ENDED
December 31, 2023**

FINANCIAL STATEMENTS

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Independent Auditor's Report

RSMUSLLP

Shareholders and Board of Directors
Shape Technologies Group, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Shape Technologies Group, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Seattle, Washington
March 28, 2024

SHAPE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	December 31,	December 31,
	2023	2022
<i>ASSETS</i>		
Current assets:		
Cash and cash equivalents	\$ 11,023	\$ 11,324
Receivables, net	82,897	71,945
Inventories, net	114,446	118,586
Prepaid expenses and other current assets	18,621	27,133
Total current assets	226,987	228,988
Property, plant and equipment, net	42,178	43,712
Operating lease right-of-use assets	24,677	26,951
Goodwill, net	69,652	80,427
Other intangible assets, net	29,080	32,603
Deferred income taxes	4,547	1,110
Due from Parent Company	—	9,790
Other long-term assets	4,835	6,898
Total assets	\$ 401,956	\$ 430,479
<i>LIABILITIES AND STOCKHOLDERS' DEFICIT</i>		
Current liabilities:		
Accounts payable	\$ 36,357	\$ 40,727
Bank term debt, short-term	3,500	3,500
Other debt, short-term	3,125	3,424
Accrued payroll and related liabilities	12,412	12,698
Taxes payable and other accrued taxes	2,788	8,139
Accrued expenses	13,025	12,968
Customer deposits and deferred revenue	29,914	39,782
Operating lease liabilities, short-term	5,250	4,599
Total current liabilities	106,371	125,837
Bank term debt, net, long-term	326,021	328,149
Revolving loan	14,000	5,000
Operating lease liabilities, long-term	20,456	22,352
Deferred income taxes	3,009	3,843
Long-term payables	11,063	12,596
Total liabilities	480,920	497,777
Stockholders' deficit:		
Common stock, \$.001 par value, 100,000 shares authorized; 63,000 shares issued and outstanding	—	—
Additional paid-in capital in excess of par	131,411	131,411
Accumulated deficit	(170,579)	(159,405)
Accumulated other comprehensive loss:		
Cumulative translation adjustment, net of tax	(39,796)	(39,304)
Total stockholders' deficit	(78,964)	(67,298)
Total liabilities and stockholders' deficit	\$ 401,956	\$ 430,479

See Accompanying Notes to Consolidated Financial Statements

SHAPE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Year ended	
	December 31,	
	2023	2022
Sales	\$ 470,973	\$ 452,853
Cost of sales	299,157	286,326
Gross margin	171,816	166,527
Operating expenses:		
Sales and marketing	66,342	63,227
General and administrative	71,979	62,367
Research and development	9,910	9,328
Impairment of long-lived assets	—	152
Restructuring charges	1,923	346
Total operating expenses	150,154	135,420
Operating income	21,662	31,107
Other income (expense), net:		
Interest expense, net	(30,543)	(18,522)
Foreign exchange gains	215	540
Other, net	(163)	189
Other expense, net	(30,491)	(17,793)
Income (loss) before income taxes	(8,829)	13,314
Income tax provision	(2,345)	(8,497)
Net income (loss)	<u>\$ (11,174)</u>	<u>\$ 4,817</u>

See Accompanying Notes to Consolidated Financial Statements

SHAPE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Amounts in thousands)

	Year ended	
	December 31,	
	2023	2022
Net income (loss)	\$ (11,174)	\$ 4,817
Other comprehensive loss:		
Cumulative translation adjustment, net of tax	(492)	(7,808)
Total comprehensive loss	<u>\$ (11,666)</u>	<u>\$ (2,991)</u>

See Accompanying Notes to Consolidated Financial Statements

SHAPE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended	
	December 31,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	\$ (11,174)	\$ 4,817
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	7,123	8,146
Amortization of intangible assets	15,868	17,814
Amortization of deferred financing costs	1,709	1,131
Reduction of right-of-use asset - operating lease	2,597	432
Asset impairment charges	—	152
Stock-based compensation	—	15
Warranty expense	2,175	2,125
Inventory obsolescence expense	1,767	1,931
Bad debt expense	433	580
Provision for write-off on the amount due from Parent	9,790	—
Deferred income taxes	(4,626)	2,223
Earn-out contingent liability adjustments	(2,169)	3,242
Changes in operating assets and liabilities, net of acquisitions:		
Receivables, net	(11,776)	(12,176)
Inventories, net	1,534	(22,890)
Other assets	9,479	(9,388)
Accounts payable	(4,217)	5,408
Accrued expenses	(3,254)	2,169
Customer deposits and deferred revenue	(10,003)	3,487
Other long-term liabilities	(1,670)	1,161
Operating lease liability	(1,246)	(432)
Net cash provided by operating activities	<u>2,340</u>	<u>9,947</u>
Cash flows from investing activities:		
Expenditures for property and equipment, net	(6,619)	(8,935)
Expenditures for intangible assets	(756)	(1,080)
Acquisitions, net of cash acquired	—	(3,631)
Net cash used in investing activities	<u>(7,375)</u>	<u>(13,646)</u>
Cash flows from financing activities:		
Repayments of bank term debt	(3,500)	(3,500)
Net borrowings under revolving credit facilities	9,000	5,000
Repayments of long-term debt	(46)	(53)
Repayments of short-term debt	(203)	(1,412)
Net cash provided by financing activities	<u>5,251</u>	<u>35</u>
Effects of changes in foreign currency exchange rates on cash and restricted cash	(1,170)	408
Net change in cash, cash equivalents and restricted cash	(954)	(3,256)
Cash, cash equivalents and restricted cash, beginning of period	15,636	18,892
Cash, cash equivalents and restricted cash, end of period	<u>\$ 14,682</u>	<u>\$ 15,636</u>

SHAPE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended December 31,	
	2023	2022
Supplemental disclosures of cash flow information:		
Non-cash acquisition consideration	\$ —	\$ 491
Non-cash right of use assets obtained in exchange for new operating lease liabilities	3,066	5,540
Cash paid during the period for:		
Interest	28,459	16,446
Income taxes	7,779	4,313

See Accompanying Notes to Consolidated Financial Statements

SHAPE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Amounts in thousands)

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Par value</u>				
Balances, December 31, 2021	63	—	\$ 131,396	\$ (164,222)	\$ (31,496)	\$ (64,322)
Net loss	—	—	—	4,817	—	4,817
Currency translation adjustment, net of tax	—	—	—	—	(7,808)	(7,808)
Stock-based compensation	—	—	15	—	—	15
Balances, December 31, 2022	63	—	\$ 131,411	\$ (159,405)	\$ (39,304)	\$ (67,298)
Net loss	—	—	—	(11,174)	—	(11,174)
Currency translation adjustment, net of tax	—	—	—	—	(492)	(492)
Balances, December 31, 2023	63	—	\$ 131,411	\$ (170,579)	\$ (39,796)	\$ (78,964)

See Accompanying Notes to Consolidated Financial Statements

SHAPE TECHNOLOGIES GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Shape Technologies Group, Inc. and its subsidiaries (the "Company" or "Shape Technologies Group" or "SHAPE") provide solutions based on its Ultra High Pressure ("UHP") technology to manufacturers. The Company is a 100%-owned subsidiary of Shape Technologies Group Parent Holdings, Inc. (the "Parent Company"). The Company designs and manufactures or assembles UHP waterjet pumps, cutting heads, and tables; robotic and process automation systems; and aftermarket components that are integrated into systems worldwide. SHAPE focuses on solutions for advanced materials processing for prominent customers in fast-growing markets. SHAPE's business strategy focuses on selling UHP equipment and providing aftermarket parts, consumables, and services to an installed base of UHP technology.

Waterjet cutting technology uses ultra-high velocity streams of water (over three times the speed of sound) to cut a broad range of materials, ranging from food, paper products, carpet and plastics, to stone, aluminum, steel and engineered materials including carbon fiber composites. SHAPE's UHP technology is also used in its surface preparation and industrial cleaning systems, in which high-velocity streams of water are used to strip, clean and prepare surfaces for painting and other coatings. SHAPE's offerings include hardware, software, process control, robotic assembly, parts and support, and the technical knowledge to meet customer needs.

The end-markets in which SHAPE's customers deploy its technology include aerospace & defense, automotive, energy, food processing, general manufacturing, glass cutting, electronics, paper slitting and trimming, and stone fabricators selling into the residential and commercial construction markets. A significant component of SHAPE's business is aftermarket sales into all of its end-markets, for its systems and pumps as well as those produced by competitors. UHP technology customers are frequent buyers of replacement components, consumables and support services. The Company conducts business on a global basis that includes manufacturing facilities located in the United States, Canada, France, Sweden, and South Korea.

Basis of Presentation

The consolidated financial statements include the accounts of Shape Technologies Group and all of its wholly owned subsidiaries. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency

The local currency is the functional currency for substantially all operations outside of the United States. Assets and liabilities are translated at the exchange rate in effect as of the Company's balance sheet date. Revenues and expenses are translated at the average monthly exchange rates throughout the year. The effects of exchange rate fluctuations in translating assets and liabilities of international operations into U.S. dollars are accumulated and reflected as a cumulative translation adjustment in the accompanying consolidated statements of comprehensive loss.

Foreign currency transaction gains (losses) consisted of the following (in thousands):

	Years ended	
	December 31,	
	2023	2022
Foreign exchange gains, net presented in cost of goods sold	\$ 7	\$ 22
Foreign exchange gains, net presented in other expense, net	215	540
Total	\$ 222	\$ 562

Use of Estimates

The preparation of these consolidated financial statements requires management to make certain assumptions and estimates about future events and apply judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The Company bases its assumptions, estimates, and judgment on historical experience, current trends and other factors which management believes to be relevant and appropriate at the time the consolidated financial statements are prepared. Actual results could differ from management's estimates and assumptions.

Cash and Cash Equivalents

The Company's cash and cash equivalents consists of demand deposits and short-term certificates of deposits in large financial institutions. At times, balances may exceed federally insured limits. At December 31, 2023, the Company had cash of \$11.0 million held in foreign financial institutions which are not federally insured.

Receivables

Receivables consist of amounts billed and currently due from customers and amounts not yet billed but earned. The Company extends credit to customers in the normal course of business and maintains an allowance for credit losses resulting from the inability or unwillingness of customers to make required payments. Management determines the allowance for credit losses by evaluating individual customer receivables and considering a customer's financial condition, credit history, current economic conditions and future events if material. The Company prepares an analysis of its ability to collect outstanding receivables that provides a basis for an allowance estimate for credit losses. The allowance is the Company's estimate for receivables as of the balance sheet date that ultimately will not be collected. Any changes in the allowance are reflected in earnings in the period in which the change occurs.

Based on this evaluation, the Company establishes an allowance for specific accounts receivable that are believed to be uncollectible, as well as an estimate of uncollectible receivables not specifically known. Historical trends and the Company's current knowledge of current and expected economic conditions provide the Company with sufficient information to establish a reasonable estimate for an allowance for credit losses.

Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Bad debt expense, net of recoveries, is recorded in Sales and marketing expense in the consolidated statements of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of receivables and cash. The Company maintains cash with various major financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any institution. In addition to performing credit worthiness analyses on our customer base, credit risks related to receivables are mitigated by the diversity of our customers across many different industry sectors and geographic regions.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs included in inventories consist of materials, labor and manufacturing overhead, which are related to the purchase or production of inventories. The Company uses the first-in, first-out method to determine its cost of inventories. If inventory costs exceed expected net realizable value due to obsolescence, or quantities in excess of expected demand, the Company records reserves for the difference between the cost and the net realizable value in Cost of sales in the consolidated statements of operations. These reserves are estimated based on recent sales history and current quantities on-hand.

Leases

The Company categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow the Company to substantially utilize or pay for the entire asset over its estimated life. The leases that the Company enters into range from one to ten years for equipment and property. Lease liabilities are recognized at the present value of the fixed lease payments, reduced by the landlord incentives using a discount rate based on the risk free rate. Lease assets are recognized based on the initial present value of the fixed lease payments, reduced by the landlord incentives, plus any direct costs from executing the leases or lease prepayments. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the lease term.

When the Company has the option to extend the lease term, terminate the lease before the contractual expiration date, or purchase the leased asset, and it is reasonably certain that the option will be exercised, consideration of the option is used in determining the classification and measurement of the lease. Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease. Finance lease assets are amortized within operating expenses on a straight-line basis over the shorter of the estimated useful lives of the assets or, in the instance where title does not transfer at the end of the lease term, the lease term.

Business Combinations and Intangible Assets Including Goodwill

The Company accounts for business combinations using the acquisition method, and, accordingly, the identifiable assets acquired and liabilities assumed are recorded at their acquisition date fair values. Goodwill is calculated as the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Identifiable intangible assets with finite lives are amortized over their useful lives on a straight-line basis, except for certain definite-lived trade names, technology and customer relationship assets, which are amortized proportional to expected revenue. Acquisition-related costs, including advisory, legal, accounting, valuation, and other similar costs, are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

Intangible assets consist of acquired identifiable intangible assets as well as internally developed patents and trademarks. Acquired identifiable intangible assets include customer relationships, order backlog, existing technology, patents and trade names acquired. Trademarks and acquired in-process research and development ("IPR&D") have an indefinite life and are not amortized. The fair value of IPR&D acquired in a business combination are capitalized and accounted for as indefinite-lived intangible assets until completed and are then amortized over their remaining useful lives. The Company capitalizes application fees, license fees, legal and other costs of successfully defending a patent from infringement. The remaining costs are expensed as incurred.

Valuation of Other Intangible Assets with Indefinite Lives

The Company evaluates the recoverability of intangible assets with indefinite lives by comparing the carrying value to the fair value of the related intangible asset. Impairment, if any, is recognized for the excess of the carrying amount of the indefinite-lived intangible asset over its fair value. For the years ended December 31, 2023 and 2022, the Company performed a qualitative assessment and determined there was not an impairment of indefinite-lived intangible assets.

Estimates and assumptions used to perform the impairment testing are inherently uncertain and can significantly affect the outcome of the impairment test. Changes in operating results and other assumptions could materially affect these estimates.

Valuation of Goodwill

The Company follows the accounting guidance contained within Accounting Standards Update (ASU) No. 2014-02, Indefinite - Goodwill and Other (Topic 350): Accounting for Goodwill, which allows private companies an accounting alternative for the subsequent measurement of goodwill. In accordance with the standard, an entity may elect to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. The Company has elected to amortize goodwill over 10 years. Goodwill is evaluated at the entity level and tested for impairment if a triggering event occurs, indicating potential impairment. The Company determined no triggering events related to goodwill occurred during the years ended December 31, 2023 and 2022, respectively.

Valuation of Long-Lived Assets with Definite Lives

Long-lived assets include property, plant and equipment, leased right-of-use assets, cost-method investments, and acquired identifiable intangible assets with definite lives as well as internally developed patents and internally developed software, trademarks, existing technology, patents and non-compete agreements.

Annually, and more frequently if circumstances warrant it, the Company reviews the carrying amount of its long-lived assets to determine if circumstances exist indicating an impairment, or if depreciation or amortization lives should be modified. If facts or circumstances support the possibility of impairment, the Company will prepare a projection of the undiscounted future cash flows of the asset group and determine if the asset group is recoverable. If the asset group is not recoverable based on these projections, the carrying amounts would be compared to their fair value, with any excess recognized as impairment. Such analysis necessarily involves significant judgments and estimations on the part of the Company. No impairment was recognized as a result of this analysis during the years ended December 31, 2023 and 2022. The Company did not record an impairment charge for the year ended December 31, 2023, however, it did record \$0.2 million related to equipment and leasehold improvements for discontinued product lines for the years ended December 31, 2022.

Deferred Financing Costs

Financing costs that are incurred by the Company in connection with the issuance of debt are deferred and amortized over the life of the underlying indebtedness using the effective interest method. For the years ended December 31, 2023 and 2022, the Company recorded amortization of deferred financing costs of \$1.7 million and \$1.1 million, respectively. These amortization costs are included as part of Interest expense in other expense, net in the consolidated statements of operations. See "Note 7: Financing Arrangements" for further information on these financing activities.

Warranty Liability

Products are warranted to be free from material defects for a period not to exceed two years from the date of installation. Provisions for estimated warranty and other related costs are recorded in cost of sales and are periodically adjusted to reflect actual experience. The amount of accrued warranty liability reflects management's best estimate of the expected future costs of honoring the Company's obligations under its limited warranty plans. The costs of fulfilling the Company's warranty obligations principally involve replacement parts, labor and sometimes travel for any field retrofits. Warranty expense is recorded in Cost of sales in the consolidated statements of operations.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company was to determine that it would not be able to realize its deferred income tax assets in the future in excess of its net recorded amount, the Company would make an adjustment to the valuation allowance which would increase the provision for income taxes.

The Company's income tax returns are periodically audited by U.S. federal, state and local and foreign tax authorities. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any time, multiple tax years are subject to audit by the various tax authorities. In evaluating the tax benefits associated with the Company's various tax filing positions, the Company records a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. A number of years may elapse before a particular matter, for which a liability has been established, is audited and effectively settled. The Company adjusts its liability for unrecognized tax benefits in the period in which it determines the issue is effectively settled with the tax authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax benefit line in the accompanying consolidated statements of operations. Accrued interest and penalties are included within Long-term payables in the consolidated balance sheets as the amounts are not material for any of the balance sheet periods presented.

Fair Value Measurements

The fair values of the Company's financial instruments reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company records its earn-out contingent consideration at fair value.

Revenue Recognition

The Company, using operational and economic characteristics such as customer credit risk and upfront or deferred payments, concludes that its revenue sources are from product and service sales. The Company believes these revenue sources accurately depict how the nature, amounts, timing, and uncertainty of its revenue and cash flows are affected by economic factors.

The Company has defined contracts as agreements with its customers and distributors in the form of signed contracts, purchase orders, and completed online orders. For each contract, the Company identifies its performance obligations, which is delivering goods or services, determining the transaction price, allocating the contract transaction price to each performance obligation (when applicable), and recognizing the revenue when (or as) the performance obligation to the customer is fulfilled. A good or service is transferred when the customer obtains control of that good or service. The Company treats contracts with similar characteristics in the same fashion, without having to analyze each contract separately, as such treatment would not materially differ from analyzing every contract separately.

The Company recognizes revenue for sales of advanced manufacturing solutions, which include UHP waterjet systems, UHP pumps, cutting heads and after-market products upon shipment or delivery of the completed product to the customer as specified by the customer purchase order. Advanced manufacturing solutions contain software that is essential to the functionality of the machine ("the system"). System sales will also include incidental consumables and spares and essential software and upgrades that are considered immaterial within the context of the contract with the customer.

Revenue attributable to systems that qualify as point in time is recognized when customers take control of the asset. For equipment where installation is separately identifiable, the Company generally determines that control transfers when the customer has obtained legal title and the risks and rewards of ownership, which is dependent upon the shipping terms within the contract.

Service revenue, including primarily installation and training, is recognized over time either proportionately over the period of the underlying contract or when services are complete, depending on the terms of the arrangement.

The Company offers repair and maintenance service contracts to its customers. Services under these contracts include preventive maintenance and intensifier parts exchanges that cover a period of up to two years. These service contracts can be bundled with the Company's UHP waterjet systems and are recognized ratably over their contractual periods, which approximates their pattern of utilization by the customers.

Transaction price allocation among multiple performance obligations is based on the relative standalone selling price ("SSP") of each distinct good or service in the contract. The determination of SSP for each distinct performance obligation requires significant judgment from management. The Company determines SSP for performance obligations based on overall pricing objectives, which takes into consideration market conditions, a review of historical sales data related to the size of arrangements, customer demographics and the type of product sold or work being performed and is established for each of the Company's performance obligations by maximizing the amount of observable inputs. When not sold separately, an estimate of the standalone selling price is determined by what the Company estimates its customers would be willing to pay for the goods or services in the market. The Company reviews and updates these estimates on an ongoing basis.

For customized systems, the Company recognizes revenue over time utilizing the input method using cost as a measure of progress which most accurately presents the amount of goods and services that have been transferred to the customer as the work is being performed. Incurred cost represents work performed, which corresponds with, and therefore depicts, the transfer of control to the customer. Contract costs include labor, material, and certain allocated overhead expense. Material costs are considered incurred, and therefore included in the cost-to-cost measure of progress, when they are used in manufacturing and therefore customize the asset. Cost estimates are based on various assumptions to project the outcome of future events; including labor productivity and availability, the complexity of the work to be performed, the cost of materials, and the performance of subcontractors. Any expected losses for a contract are charged to earnings, in total, in the period such losses are identified.

The Company's contracts generally do not have variable consideration in the form of refunds, returns, credits, rebates, price concessions, pricing incentives or other items impacting transaction price.

Total revenue recognized at a point in time and over time was as follows (in thousands):

	Years ended	
	December 31,	
	2023	2022
Revenue recognized at a point in time	\$ 341,625	\$ 333,815
Revenue recognized over time	129,348	119,038
Total sales	<u>\$ 470,973</u>	<u>\$ 452,853</u>

The Company has elected to exclude from revenue governmental assessed and imposed taxes on revenue transactions that are billed to customers. The Company has also elected to treat shipping and handling activities that occur after control of the product transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation. Shipping and handling costs billed to customers are recorded in revenue. Shipping costs incurred by the Company are recorded in cost of goods sold. The Company has elected to expense sales commissions and other incremental costs to obtain a contract when incurred, as the amortization period would have been one year or less, and these costs are recorded within Sales and marketing expenses in the consolidated statements of operations. Commission expense recognized with repair and maintenance service contracts is insignificant.

The Company does not have any significant financing components in its customer arrangements. The Company may extend credit to customers in line with industry standards where it is strategically advantageous. For contracts for which the Company recognizes revenue over time, the Company recognizes revenue based on what it has the right to bill the customer. The Company's contract assets include trade accounts receivable, unbilled revenues and costs and estimated earnings in excess of billings on contracts for customized equipment. These are further described in Note 3. The Company's contract liabilities include customer deposits and deferred revenue and totaled \$29.9 million, \$39.8 million and \$35.3 million at December 31, 2023, 2022, and 2021, respectively.

As described above, the Company offers warranties on various products and services. These warranties are assurance-type warranties that are not sold on a standalone basis; therefore, they are not considered distinct performance obligations.

Cost of Sales

Cost of sales is generally recognized when the related revenue is recognized. Cost of sales includes direct and indirect costs associated with the manufacture, installation, and service of the Company's systems, pumps, and consumable parts sales, including estimated future warranty obligations. Direct costs include material and labor, while indirect costs include, but are not limited to, depreciation, inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, other costs of the Company's distribution network, and foreign currency exchange gains and losses related to inventory purchases and sales.

Advertising Costs

Advertising costs are expensed as incurred and included in Sales and marketing expense in the consolidated statements of operations and amounted to \$1.12 million and \$1.14 million for the years ended December 31, 2023 and 2022, respectively.

Research and Development

Research and development efforts undertaken by the Company are expensed as incurred. Research and development expenses were \$9.9 million and \$9.3 million for the years ended December 31, 2023 and 2022, respectively.

Software Development Costs

Software development include costs to develop applications that are essential to system functionality. These costs are capitalized at the point when software technological feasibility has been established and end when a product is available for general release to customers. The Company establishes technological feasibility when a detailed program design has been created or when a working model has been completed. At December 31, 2023 and 2022 the Company did not have any material capitalized software development costs.

The acquisition agreement did not contain an earn-out provision, however there was a holdback of \$0.5 million, which was paid in full during 2023. The purpose of this holdback was to provide security for any claim under the specific indemnities listed in the acquisition agreement. As of December 31, 2023, there are no remaining liabilities related to the acquisition.

2021 Acquisition of Riverstone

In the year ended December 31, 2021, the Company acquired 100% of the equity interest in Riverstone Waterjets Ltd. ("Riverstone"), including the customer lists and trade names, a Canada-based distributor of water jet pumps and aftermarket parts servicing the industrial market for \$0.9 million, net of cash acquired. Total consideration included cash paid of \$1.3 million and a non-contingent earn-out provision, based on financial results, with an acquisition date fair value of \$1.4 million. The remainder of the earn-out provision was deemed to be incentive compensation for future employment services as payments are forfeited if the selling shareholders do not continue their employment with the Company as contingent consideration. In the year ended December 31, 2023, the Company paid \$4.7 million and \$1.1 million in contingent and non-contingent consideration, respectively, related to the second year of the three year earn-out period. For the years ended December 31, 2023 and December 31, 2022, the Company recorded contingent expense of \$3.6 million and \$5.9 million, respectively, in General and administrative expenses in the consolidated statements of operations related to changes in the estimated earn-out liability. The remaining potential payout is estimated at \$5.6 million and accrued for under other current liabilities as of December 31, 2023.

Note 3: Receivables, net

Receivables, net, consisted of the following (in thousands):

	December 31,	
	2023	2022
Trade accounts receivable	\$ 66,037	\$ 62,456
Unbilled revenues	509	247
Costs and estimated earnings in excess of billings on contracts for customized equipment	18,520	11,127
	<u>85,066</u>	<u>73,830</u>
Less: allowance for credit losses	(2,169)	(1,885)
Receivables, net	<u>\$ 82,897</u>	<u>\$ 71,945</u>

For the year ended December 31, 2021, Trade accounts receivable, Unbilled revenues and Costs and estimated earnings in excess of billings on contracts for customized equipment were \$54.1 million, \$0.9 million and \$7.2 million, respectively. Unbilled revenues do not contain any amounts that are expected to be collected after one year.

Activity in the allowance for credit losses was as follows (in thousands):

	Years ended	
	December 31,	
	2023	2022
Beginning balance	\$ 1,885	\$ 2,066
Provision for credit losses	433	580
Write-offs and adjustments	(149)	(761)
Ending balance	<u>\$ 2,169</u>	<u>\$ 1,885</u>

Note 4: Inventories, net

Inventories consisted of the following (in thousands):

	December 31,	
	2023	2022
Raw materials, parts and components	\$ 108,533	\$ 111,255
Work in process	9,385	7,231
Finished goods	7,748	10,219
Reserve for obsolete and excess inventory	(11,220)	(10,119)
Inventories, net	<u>\$ 114,446</u>	<u>\$ 118,586</u>

Raw materials, parts and components include purchased finished components, which are used both in production and sold to customers as aftermarket parts.

Note 5: Property, Plant and Equipment, net

Property, plant and equipment are stated at cost. Property, plant and equipment acquired in an acquisition are stated at fair value. Additions, leasehold improvements and major replacements are capitalized. When assets are sold, retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations within operating income. Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the related lease term or the useful life of the asset. Expenditures for maintenance and repairs are charged to expense as incurred.

The carrying value of the Company's property, plant and equipment was as follows (in thousands):

	Range of useful lives	December 31,	
		2023	2022
Machinery and equipment	5 - 7 years	\$ 47,046	\$ 46,525
Land and buildings	10 - 40 years for buildings, indefinite for land	24,649	23,504
Computer equipment and software	3 years	24,329	20,783
Leasehold improvements	Over the shorter of the life of the asset or the remaining lease term	4,614	4,219
Furniture and fixtures	3 years	3,181	3,114
Property and equipment not yet placed in service	N/A	1,031	4,233
		<u>104,850</u>	<u>102,378</u>
Accumulated depreciation		(62,672)	(58,666)
Property, plant and equipment, net		<u>\$ 42,178</u>	<u>\$ 43,712</u>

Depreciation expense was recorded as follows (in thousands):

	Years ended December 31,	
	2023	2022
Depreciation expense	\$ 7,123	\$ 8,146

Note 6: Goodwill and Other Intangible Assets

The Company records goodwill and intangible assets in connection with acquisitions accounted for as business combinations. Additionally, the Company records changes in goodwill and other intangible assets as a result of foreign currency translation effect on goodwill and other intangible assets allocated to foreign locations along with amortization. The carrying value of goodwill was as follows (in thousands):

	Weighted average remaining lives in years	December 31,	
		2023	2022
Goodwill	6.0	\$ 115,037	\$ 114,393
Less: accumulated amortization		(45,385)	(33,966)
Total goodwill, net		<u>\$ 69,652</u>	<u>\$ 80,427</u>

The Company follows the alternative method of accounting for goodwill and amortizes the balance over a useful life of 10 years. Amortization expense was recorded as follows (in thousands):

	Years ended December 31,	
	2023	2022
Amortization of goodwill	\$ 11,419	\$ 11,326

Expected amortization of goodwill held as of December 31, 2023 is as follows (in thousands):

Year	Amounts
2024	\$ 11,609
2025	11,609
2026	11,609
2027	11,609
2028	11,609
Thereafter	11,607
	<u>\$ 69,652</u>

The Company's intangible assets other than goodwill consisted of the following (in thousands):

	Weighted average lives in years	December 31,	
		2023	2022
Customer relationships	7.1	\$ 85,890	\$ 85,615
Existing technology	4.6	48,470	48,297
Trade names - indefinite lived	Indefinite	22,540	22,314
Patents	6.2	21,569	20,926
Non-compete agreements	1.9	3,710	3,662
Trade names - definite lived	5.0	4,097	3,949
In-process research and development	Indefinite	178	183
		186,454	184,946
Less: accumulated amortization		(157,374)	(152,343)
Total intangible assets, net		\$ 29,080	\$ 32,603

Amortization expense was recorded as follows (in thousands):

	Years ended December 31,	
	2023	2022
Amortization of intangible assets	\$ 4,449	\$ 6,468

Expected amortization of definite-lived intangible assets held as of December 31, 2023 is as follows (in thousands):

Year	Amounts
2024	\$ 2,570
2025	1,752
2026	779
2027	373
2028	201
Thereafter	687
	\$ 6,362

Note 7: Financing Arrangements

The Company's financing arrangements included term debt (the "Bank Term Debt") and revolving credit facility with a Bank, and an asset-based lending (ABL) credit facility with a separate Bank.

The Bank Term Debt is secured by certain assets of the Company. The Bank Term Debt accrues interest at a base rate plus 2% or at a rate equal to the secured overnight financing rate (SOFR) rate plus 3% as selected by the Company. Interest is payable on at least a quarterly basis and the weighted-average interest rate on the Bank Term Debt for the year ended December 31, 2023 was 8.2% (effective rate of 8.5% at December 31, 2023). The credit agreement requires quarterly principal payments of at least \$875,000 and matures in April 2025. The Bank Term Debt's unpaid principal balance at December 31, 2023 was \$331.1 million.

The revolving credit facility has a maximum availability of \$15.0 million and accrues interest at a base rate plus 2% or at a rate equal to the SOFR rate plus 3%. At December 31, 2023 and 2022, there were no borrowings under that facility. The revolving facility matures in January 2025.

The ABL facility has a maximum availability of \$60.0 million based on certain Company collateral calculations and is secured by certain accounts receivable and inventory, net of reserve balances, for certain of the Company's subsidiaries. As of December 31, 2023, the Company had availability of \$37.5 million. The ABL facility accrues interest at rates selected by the Company which includes a Base Rate, as defined under the ABL agreement, and SOFR and Canadian prime rates plus an incremental rate as provided for under the agreement. As of December 31, 2023 and December 31, 2022, there were borrowings of \$14 million and \$5 under the ABL facility, respectively. The weighted-average interest Base Rate and SOFR rates on the ABL facility for the year ended December 31, 2023 were 8% and 6.6% (effective rate of 8.8% and 6.7% at December 31, 2023), respectively. The ABL facility matures in January 2025.

At December 31, 2023 and 2022, the Company's unamortized deferred financing costs related to the Bank Term Debt was \$1.6 million and \$3 million, respectively, and was netted against the Bank Term Debt's long-term principal balance.

At December 31, 2023, the Company's unamortized deferred financing costs related to the ABL Facility were \$0.4 million, and comprised the balance of deferred financing costs, net included in other long-term assets on the consolidated balance sheet.

Bank Term Debt and ABL Facility Covenants

The Bank Term Debt, Revolving Credit facility and the ABL facility contains events of default including, but not limited to, nonpayment of principal or interest, violation of covenants, breaches of representations and warranties, cross-default to other debt, bankruptcy and other insolvency events, material judgments, certain events, and certain changes of control of Shape Technologies Group.

Other Debt

The Company's other debt is related to finance agreements at several foreign subsidiaries and is recorded in Other debt, short-term on the consolidated balance sheets, and accrues interest at rates between 0% and 8%.

Aggregate annual principal maturities under the Bank Term Debt, ABL facility, and other debt consist of the following for the years ending (in thousands):

Year	Amounts
2024	\$ 6,456
2025	341,654
2026	28
2027	19
2028	15
Thereafter	78
	<u>348,250</u>
Deferred financing costs ⁽¹⁾	<u>(1,604)</u>
Total financing arrangements, net	<u>\$ 346,646</u>

(1) Amounts do not include \$0.4 million of deferred financing costs, net included in other long-term assets on the consolidated balance sheet at December 31, 2023, related to revolving credit facilities.

Note 8: Warranties

The following table presents the activity for the Company's warranty obligations (in thousands):

	Years ended	
	December 31,	
	2023	2022
Beginning balance	\$ 2,159	\$ 2,082
Warranty provision	2,175	2,125
Settlements made	(2,262)	(2,048)
Ending balance	<u>\$ 2,072</u>	<u>\$ 2,159</u>

The Company's warranty provision balance is included in accrued expenses on the consolidated balance sheets.

Note 9: Income Taxes

The Tax Cuts and Jobs Act contained a provision which requires the capitalization of Section 174 costs incurred in years beginning on or after January 1, 2022. Section 174 costs are expenditures which represent research and development costs that are incident to the development or improvement of a product, process, formula, invention, computer software, or technique. This provision changes the treatment of Section 174 costs such that the expenditures are no longer allowed as an immediate deduction but rather must be capitalized and amortized.

The income tax benefit (provision) is based on loss before income taxes reported for financial statement purposes. The components of income (loss) before income taxes, based on tax jurisdiction, are as follows (in thousands):

	Years ended	
	December 31,	
	2023	2022
Income before income taxes:		
United States income (loss)	\$ (17,235)	\$ 4,200
Foreign income (loss)	8,406	9,114
Total income (loss) before income taxes	<u>\$ (8,829)</u>	<u>\$ 13,314</u>

The income tax provision is comprised of the following (in thousands):

	Years ended	
	December 31,	
	2023	2022
Federal	\$ (1,233)	\$ (111)
State	(650)	(622)
Foreign	(4,618)	(6,358)
Current tax benefit (provision)	<u>(6,501)</u>	<u>(7,091)</u>
Federal	(1,780)	187
State	1,971	(29)
Foreign	3,965	(1,564)
Deferred tax benefit (provision)	<u>4,156</u>	<u>(1,406)</u>
Income tax benefit (provision)	<u>\$ (2,345)</u>	<u>\$ (8,497)</u>

The reconciliation between the Company's effective tax rate on loss before income taxes and the statutory tax rate is as follows:

	Years ended	
	December 31,	
	2023	2022
Income tax provision at federal statutory rate	21.0 %	21.0 %
State and local taxes net of federal taxes	(0.3)%	4.5 %
Nondeductible/nontaxable items	(51.0)%	17.4 %
Foreign operations	(9.4)%	22.3 %
Valuation allowance	27.3 %	(39.0)%
Tax return to provision adjustments	(19.0)%	(0.8)%
Unrecognized tax benefits	2.4 %	4.7 %
Research and development credits	2.4 %	33.7 %
Income tax provision	<u>(26.6)%</u>	<u>63.8 %</u>

Components of the net deferred tax assets (liabilities) consisted of the following (in thousands):

	December 31,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 7,128	\$ 7,485
Inventory	4,236	3,464
Interest	12,095	11,546
Research and development credits	—	994
Lease liability	3,774	3,630
Section 174 costs	3,106	1,705
Other	8,103	9,616
Deferred tax assets	<u>38,442</u>	<u>38,440</u>
Valuation allowance	(20,528)	(22,990)
Total deferred tax assets	<u>17,914</u>	<u>15,450</u>
Deferred tax liabilities:		
Intangible assets	(7,928)	(9,135)
Property, plant and equipment	(1,323)	(1,702)
ROU asset	(3,557)	(3,630)
Other	(3,568)	(3,716)
Deferred income tax liabilities	<u>(16,376)</u>	<u>(18,183)</u>
Net deferred income tax assets (liabilities)	<u>\$ 1,538</u>	<u>\$ (2,733)</u>

The \$2.5 million decrease in the valuation allowance for deferred tax assets between December 31, 2023 and 2022 relates to the realizability of net operating losses, research and development credit, and the deduction for interest expense.

As of December 31, 2023 the Company had gross federal, state, and foreign net operating loss carryforwards of approximately \$0, \$46.3 million, and \$10.4 million, respectively. The federal net operating loss carryforwards have carryforward periods that are indefinite. The state net operating loss carryforwards have carryforward periods of 5-20 years and began to expire in 2023. A company's ability to utilize a portion of its net operating loss carryforwards to offset future taxable income may be subject to limitation under Section 382 of the IRC due to changes in the equity ownership of the company. The Company believes an ownership change occurred in a prior period and that the net operating losses will be subject to limitation. A formal analysis indicates that the Company will not be limited in the current period. The Company has fully utilized its research and development tax credit carryforward in the current period.

The Company considers the undistributed earnings of its foreign subsidiaries to be permanently reinvested and, accordingly, no U.S. income taxes have been provided thereon.

The following is a tabular reconciliation of the total amounts of the Company's unrecognized tax benefits (in thousands):

	Years ended	
	December 31,	
	2023	2022
Balance, beginning of year	\$ 7,316	\$ 7,948
Decreases related to cash settlements	—	(1,117)
Gross increases - tax positions in current period	1,563	779
Gross decreases - tax positions in prior periods	(872)	(272)
Gross decreases in tax positions due to lapse of statute of limitations	(68)	(22)
Balance, end of year	<u>\$ 7,939</u>	<u>\$ 7,316</u>

The \$7.9 million of unrecognized tax benefits as of December 31, 2023 if recognized, would affect the effective tax rate and would result in adjustments to other tax accounts, primarily deferred taxes. The Company estimated \$0.3 million of uncertain tax benefits in long-term payables will change in the next 12 months related to transfer pricing due to the expiration of the statute of limitations.

The Company recorded interest and penalties of \$2.2 million and \$1.8 million in long-term payables in the consolidated balance sheets as of December 31, 2023 and 2022, respectively, related to uncertain tax positions. During the years ended December 31, 2023 and 2022 the Company recorded net interest (benefit)/expense of \$288,000 and (\$245,000), respectively, which is included in Income tax provision on the consolidated statements of operations.

The Company is subject to taxation in the United States, various state and foreign jurisdictions. In 2022, there was an audit settlement of \$2.5 million with Germany covering years 2014-2017. The Company has filed a Mutual Agreement Procedure with the U.S. and Germany for this Germany tax settlement, which is still being evaluated by the respective tax authorities. The tax years 2018-2021 are currently being audited by the German tax authorities. The Company's reserve for uncertain tax positions include unresolved matters with the German taxing authorities. These reserves are subject to a high degree of estimation and management judgment. Resolution of these significant unresolved matters could have a material impact on the Company's financial results in future periods. With few exceptions, the Company is no longer subject to examinations by tax authorities for years prior to year 2014.

Note 10: Stock-Based Compensation

Stock-Based Compensation

The Parent Company has established an equity compensation plan (the "Plan") to promote the growth and success of the business by aligning long-term interests of employees with those of shareholders. There are 21,500 shares authorized for issuance under the Plan in the form of stock, stock units, stock options, stock appreciation rights, or cash awards. As of December 31, 2023, the Parent Company had 9,051 shares of common stock available for future issuance under its Plan.

Stock Options

The Parent Company grants stock options to employees in certain management positions of the Company with service and/or performance conditions. For 50% of the options granted under the Plan, they vest over the expected service period. The remaining 50% will vest upon a change of control event provided the transaction price exceeds various thresholds. The awards are exercisable upon a change of control event or, in the case of the time vested options, immediately prior to their expiration date if a change of control event has not occurred. The compensation cost of stock options expected to vest is based on their fair value at the date of grant, net of expected forfeitures, and recognized ratably over the vesting period for the time vested options (all outstanding stock options have vested as of December 31, 2022). No compensation cost will be recorded for the performance-based awards until it is deemed probable that a change of control event will occur at a price in excess of the performance thresholds.

The Company uses the Black-Scholes option-pricing model to calculate grant-date fair value of the Parent's stock options using the assumptions noted in the following table. The expected term of the options was computed using the estimated period of time over which the options will be outstanding before being exercised. The risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected term of the awards. Volatility is calculated using the average volatility of comparable public companies due to the Company's limited historical stock transactions.

The Company did not grant any stock options in the years ended December 31, 2023 and 2022.

The Company has not declared or paid any cash dividends on its common stock and does not anticipate that any dividends will be paid in the foreseeable future based upon management intent.

The following table summarizes stock option activities for the years ended December 31, 2023 and 2022:

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Life (Years)</u>
Outstanding at December 31, 2021, 2022 and 2023	8,993	\$ 353	
Options exercisable at December 31, 2023	2,576	353	0.9
Options vested and expected to vest at December 31, 2023	8,993	353	1.1

The Company included the following amounts for stock-based compensation expense, which related to stock options, in the consolidated statements of operations (in thousands):

	<u>Years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Sales and marketing	\$ —	\$ 11
General and administrative	—	4
Total	<u>\$ —</u>	<u>\$ 15</u>

Total unrecognized stock compensation expense includes \$1.5 million at December 31, 2023, of which will be recognized when, or if, it becomes probable that a change of control event will occur at a price in excess of the performance thresholds, as defined in the agreement.

Note 11: Retirement Plans

The Company has defined contribution 401(k) plans covering substantially all employees in the United States. The plans allow employees to defer a portion of their employment income. Participants age 50 or older may elect to defer additional amounts to the plans as allowed under the IRC. Each employee who elects to participate is eligible to receive Company matching contributions that are based on employee contributions to the plans, subject to certain limitations. Company contributions and expenses under the 401(k) plans were \$1.6 million and \$1.4 million for the years ended December 31, 2023 and 2022, respectively.

Note 12: Fair Value of Financial Instruments

Fair Value of Financial Instruments

The carrying value of the Company's current assets and liabilities approximates fair value due to the short-term maturity of these assets and liabilities. Financial assets and liabilities measured on a nonrecurring basis that are included in consolidated balance sheets consist of a cost-method investment. That financial assets are measured at fair value when impairment indicators exist. Due to significant unobservable inputs, the fair value measures used to evaluate impairment and to calculate a prevailing market interest rate are Level 3 inputs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company discloses and classifies fair value measurements in one of the following three categories:

- Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2:* Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022 (in thousands):

	December 31, 2023			Balance at December 31, 2023
	Level 1	Level 2	Level 3	
Earn-out contingent consideration (Note 2)	\$ —	\$ —	\$ 5,639	\$ 5,639

	December 31, 2022			Balance at December 31, 2022
	Level 1	Level 2	Level 3	
Earn-out contingent consideration (Note 2)	\$ —	\$ —	\$ 7,679	\$ 7,679

The earn-out contingent consideration was incurred from the acquisition in 2021 as described in "Note 2: Business Combinations." The Company generally determined the fair value of the earn-out contingent consideration at December 31, 2023 and December 31, 2022 by using discounted cash flow models for the earn-out payments, weighted by the estimated probability of earn-out payments being earned and paid. The models relied upon certain unobservable inputs, including management's estimate of the range of future EBITDA achieved, the probabilities of achieving them, and the annual discount rates applied to the payments.

The following table presents a reconciliation for the Company's earn-out contingent consideration recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) (in thousands):

	Years ended December 31,	
	2023	2022
Beginning balance	\$ 7,679	\$ 4,437
Losses in other comprehensive income related to estimated liabilities	129	116
Settlements	(5,757)	(2,664)
Adjustments to estimated liabilities (Note 2)	3,588	5,790
Ending balance	<u>\$ 5,639</u>	<u>\$ 7,679</u>

There were no significant transfers between any levels during the years ended December 31, 2023 and 2022.

Note 13: Leases

The Company has lease arrangements for certain office, warehouse and manufacturing facilities and equipment throughout the world. These leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options, some of which are reasonably certain of exercise. The lease periods expire between 2024 and 2032.

Payments under the Company's lease arrangements may be fixed or variable over the terms of the leases. Total rental expenses for facilities and equipment, including variable and short-term costs, were \$9.3 million and \$8 million for the years ended December 31, 2023 and 2022 respectively.

Operating lease cost is recognized on a straight-line basis over the lease term. Components of lease expense were as follows (in thousands):

	December 31,	
	2023	2022
Operating lease cost	\$ 5,496	\$ 4,676
Variable and short-term lease cost	3,853	3,285
Total lease cost	<u>\$ 9,349</u>	<u>\$ 7,961</u>

As of December 31, 2023, our operating leases had a weighted average remaining lease term of 5.95 years and a weighted average discount rate of 1.63%. As of December 31, 2022, our operating leases had a weighted average remaining lease term of 7.01 and a weighted average discount rate of 1.43%. Future lease payments under operating leases as of December 31, 2023 were as follows (in thousands):

Year	Amounts
2024	\$ 5,590
2025	4,875
2026	4,097
2027	3,447
2028	3,101
Thereafter	<u>5,518</u>
Total Future lease payments	26,628
Less: imputed interest	(922)
Present value of lease liabilities	<u>\$ 25,706</u>

As of December 31, 2023, the Company does not have any material financing leases.

Note 14: Commitments and Contingencies

Pledged Assets

The Company has pledged a portion of its cash as collateral for certain of its revenue arrangements and property-lease banking arrangements. The following table provides a reconciliation of the amount of cash and restricted cash reported within the consolidated balance sheets to the total of the same such amounts shown in the consolidated statements of cash flows (in thousands):

	December 31,	
	2023	2022
Cash	\$ 11,023	\$ 11,324
Restricted cash included in prepaid expenses and other current assets	1,168	1,655
Restricted cash included in other long-term assets	2,491	2,657
Total cash and restricted cash shown in the consolidated statements of cash flows	<u>\$ 14,682</u>	<u>\$ 15,636</u>

See "Note 7: Financing Arrangements" for information regarding the Company's assets pledged as collateral to secure its debt.

Product Liability

Currently there are no material outstanding product liability claims arising out of the sale of current and former products of the Company. To minimize the financial impact of these claims, the Company purchases product liability insurance.

Management periodically evaluates the merit of all claims, including product liability claims, as well as considering unasserted claims. Recoveries, if any, may be realized from indemnitors, codefendants, insurers or insurance guaranty funds. Management believes its insurance coverage is adequate to satisfy any liabilities that are incurred.

Legal Proceedings

The Company is, from time to time, party to various legal proceedings arising out of its business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, the Company's management believes that the Company's ultimate liability, if any, arising from pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are probable of assertion, taking into account established accruals for estimated liabilities, should not be material to its business, financial condition or results of operations.

Personal Injury Actions

Product and general liability claims arise against the Company from time to time in the ordinary course of business. These claims are generally covered by appropriate insurance. Recoveries, if any, may be realized from indemnitors, codefendants, insurers or insurance guaranty funds. There is inherent uncertainty as to the eventual resolution of unsettled claims. Management, however, believes that any losses will not have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

Note 15: Related-Party Transactions

As a result of the 2019 transaction in which AIP, a stockholder in the Parent Company, brought on a minority investor in SHAPE, a \$9.8 million due from Parent was set up as a long-term receivable on SHAPE's balance sheet. It has been determined that the amount will not be repaid and as such, SHAPE wrote off the \$9.8 million balance to general and administrative expense on the statement of operations for the year ended December 31, 2023. During 2023 and 2022, the Company also reimbursed expenses incurred by AIP. These expenses were not significant.

On May 31, 2022, the Company entered into a 10 year lease with the prior owner of Evomatic, which resulted in \$255,000 in lease costs for the year ended December 31, 2023.

Ascent Aerospace, Optimas and Vertex, AIP portfolio owned companies, purchase products from the Company which are recorded as sales.

The balances between SHAPE and all related parties, except for the \$9.8 million long-term receivable from our Parent Company as of 2022, are classified as current receivables, payables and ROU assets and liabilities on the consolidated balance sheets and are settled under customary terms. The Company included the following amounts for transactions with related parties in the consolidated statements of operations (in thousands):

	Years ended	
	December 31,	
	2023	2022
Sales	\$ 239	\$ 133
Expense reimbursements	80	87

The Company's balances with related parties consisted of the following (in thousands):

	December 31,	
	2023	2022
	Receivables	\$ 48
Right-of-use asset	2,613	2,439
Operating lease liability	2,590	2,418
Long-term receivables	—	9,790

Note 16: Restructuring Charges

As part of its integration and optimization efforts, the Company reviews its global footprint and worldwide staffing to ensure that it is best positioned to service its customers. In the years ended December 31, 2023 and 2022, the Company incurred costs related to activities intended to improve its operational efficiencies and to exit certain product lines. These costs primarily included personnel termination costs and the net effect of optimizing its European entity and facility structure.

The Company's restructuring charges in conjunction with restructuring its operations consisted of the following (in thousands):

	Years ended	
	December 31,	
	2023	2022
Restructuring charges	\$ 1,923	\$ 346

Following is a reconciliation of the beginning and ending balances of the restructuring liability (in thousands):

	Employee termination benefits	Exiting product lines	Facility consolidation costs	Total
Balance at December 31, 2022	\$ —	\$ —	\$ —	\$ —
Provision for restructuring events	2,216	(293)	—	1,923
Payments and adjustments	(1,980)	293	—	(1,687)
Balance at December 31, 2023	<u>\$ 236</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 236</u>

Note 17: Subsequent Events

The Company performed an evaluation of subsequent events through March 28, 2024, the date the financial statements were available to be issued and determined there were no recognized subsequent events that would require disclosure in the consolidated financial statements as of December 31, 2023.