

Årsredovisning
för
KMT Robotic Solutions Holding AB
556724-6649

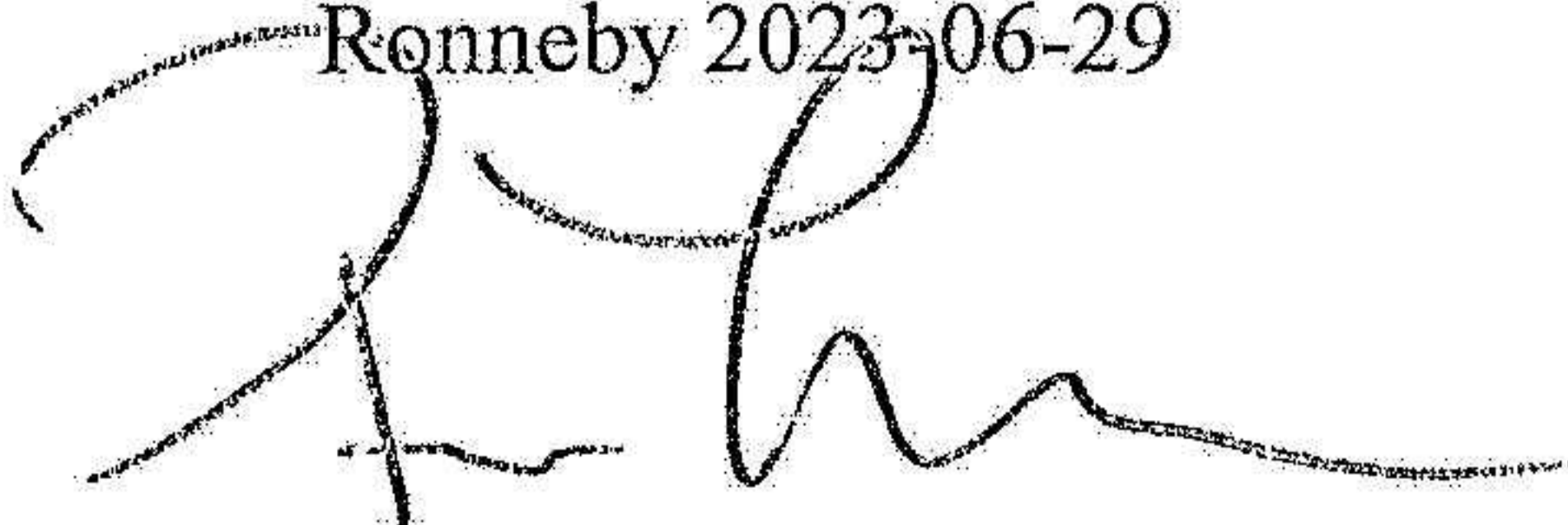
Räkenskapsåret
2022

Fastställelseintyg

Undertecknad styrelseledamot i KMT Robotic Solutions Holding AB intygar att resultaträkningen och balansräkningen i årsredovisningen har fastställts på årsstämma 2023-06-29. Årsstämman beslutade att godkänna styrelsens förslag till resultatdisposition.

Jag intygar också att innehållet i årsredovisningen och revisionsberättelsen stämmer överens med originalen.

Ronneby 2023-06-29



Per Josefsson

Årsredovisning
för
KMT Robotic Solutions Holding AB
556724-6649

Räkenskapsåret
2022

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Styrelsen för KMT Robotic Solutions Holding AB avger följande årsredovisning för räkenskapsåret 2022.

Förvaltningsberättelse

Information om verksamheten

Bolaget bedriver, via dotterbolag, tillverkning och försäljning av Robotlösningar. Bolaget fungerar som holdingbolag. Med stöd av ÅRL 7 kap 2§ upprättar KMT Robotic Solutions Holding AB ingen koncernredovisning, utan hänvisar till den koncernredovisning som upprättas av Shape Technologies Group Inc (tidigare Waterjet Holding Inc.) org nr 46-3275009 med säte i Delaware, USA.

Ägarförhållanden

KMT Robotic Solutions Holding AB är ett helägt dotterbolag till WJG Holdings AB, org. nr. 556241-6775.

Moderbolaget WJG Holdings AB ingår i koncernen som ägs av American Industrial Partners. Företaget har sitt säte i Stockholm.

Flerårsöversikt (Tkr)	2022	2021	2020	2019	2018
Resultat efter finansiella poster	-39	-34	-75	-86	-59
Balansomslutning	40 688	40 688	40 686	40 689	40 696
Soliditet (%)	67,6	67,6	67,5	67,7	67,7

Förändringar i eget kapital

	Aktie- kapital	Balanserat resultat	Årets resultat	Totalt
Belopp vid årets ingång	100	27 361	35	27 496
Disposition enligt beslut av årsstämman:				
Balanseras i ny räkning		35	-35	0
Årets resultat			0	0
Belopp vid årets utgång	100	27 396	0	27 496

Förslag till vinstdisposition

Styrelsen föreslår att till förfogande stående vinstmedel (kronor):

balanserad vinst	27 396 371
disponeras så att i ny räkning överföres	27 396 371
	27 396 371

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

2022-01-01
-2022-12-31

2021-01-01
-2021-12-31

Rörelsens kostnader

Övriga externa kostnader

-39

-34

-39

-34

Rörelseresultat

-39

-34

Resultat efter finansiella poster

-39

-34

Bokslutsdispositioner

3

39

69

Resultat före skatt

0

35

Årets resultat

0

35

2023071006383



Balansräkning

Tkr

Not

2022-12-31

2021-12-31

TILLGÅNGAR

Anläggningstillgångar

Finansiella anläggningstillgångar

Andelar i koncernföretag

4

30 000

30 000

30 000

30 000

Summa anläggningstillgångar

30 000

30 000

Omsättningstillgångar

Kortfristiga fordringar

Fordringar hos koncernföretag

10 685

10 685

10 685

10 685

Kassa och bank

Summa omsättningstillgångar

3

3

10 688

10 688

SUMMA TILLGÅNGAR

40 688

40 688

EGET KAPITAL OCH SKULDER

Eget kapital

5

Bundet eget kapital

Aktiekapital

100

100

100

100

Fritt eget kapital

Balanserad vinst eller förlust

27 396

27 362

Årets resultat

0

35

27 396

27 397

Summa eget kapital

27 496

27 497

Kortfristiga skulder

Skulder till koncernföretag

13 192

13 191

Summa kortfristiga skulder

13 192

13 191

SUMMA EGET KAPITAL OCH SKULDER

40 688

40 688

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.

Anläggningstillgångar

Immateriella och materiella anläggningstillgångar redovisas till anskaffningsvärde minskat med ackumulerade avskrivningar enligt plan och eventuella nedskrivningar.

Avskrivning sker linjärt över den förväntade nyttjandeperioden med hänsyn till väsentligt restvärde.

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.

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 prövas 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 nettoredovisas 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

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 Väsentliga händelser efter räkenskapsårets slut

Inga väsentliga händelser har noterats efter räkenskapsårets slut.

Not 3 Bokslutsdispositioner

	2022	2021
Mottagna koncernbidrag	39	69
	39	69

Not 4 Andelar i koncernföretag

	2022-12-31	2021-12-31
Ingående anskaffningsvärden	30 000	30 000
Utgående ackumulerade anskaffningsvärden	30 000	30 000
Utgående redovisat värde	30 000	30 000

Not 5 Disposition av vinst

2022-12-31

Förslag till vinstdisposition

Styrelsen föreslår att till förfogande stående vinstmedel:

balanserad vinst	27 396
disponeras så att i ny räkning överföres	27 396
	27 396

Ronneby den dag som framgår av våra elektroniska underskrifter

Antonino LaDuca
Ordförande

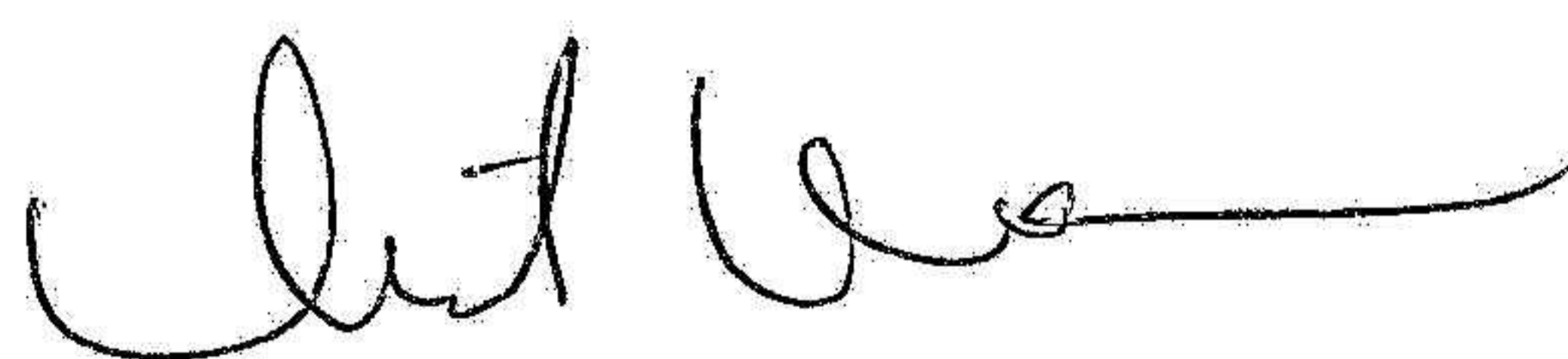
Per Josefsson
Ledamot

Vår revisionsberättelse har lämnats den dag som framgår av vår elektroniska underskrift
RSM Stockholm AB

Malin Lanneborn
Auktoriserad revisor

Vidimeras av:

Annika Nordsten



076-105 5984

Verifikat

Transaktion 09222115557495809370

Dokument

ÅR FY22 KMT Robotic Solutions Holding AB
Huvuddokument
8 sidor
Startades 2023-06-29 10:00:30 CEST (+0200) av Malin Lanneborn (ML)
Färdigställt 2023-06-29 16:45:54 CEST (+0200)

Signerande parter

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REVISIONSBERÄTTELSE

Till bolagsstämman i KMT Robotic Solutions Holding AB, org.nr 556724-6649

Rapport om årsredovisningen

Uttalanden

Vi har utfört en revision av årsredovisningen för KMT Robotic Solutions Holding AB för räkenskapsåret 1 januari 2022 till 31 december 2022.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av KMT Robotic Solutions Holding ABs finansiella ställning per den 31 december 2022 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 Robotic Solutions Holding AB enligt god revisors sed 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 ansvar

Det är styrelsen som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen ansvarar även för den interna kontroll som den 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 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 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 revisions sed 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/revisorsansvar. 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 förvaltning för KMT Robotic Solutions Holding AB för räkenskapsåret 1 januari 2022 till 31 december 2022 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

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

Grund för uttalanden

Vi har utfört revisionen enligt god revisions sed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet "Revisorns ansvar". Vi är oberoende i förhållande till KMT Robotic Solutions Holding AB enligt god revisors sed 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 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.

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 i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättnings skyldighet 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 revisions sed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättnings skyldighet 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/revisorsansvar. Denna beskrivning är en del av revisionsberättelsen.

Stockholm den dag som framgår av vår elektroniska signatur.

RSM Stockholm AB

Malin Lanneborn
Auktoriserad revisor

Verifikat

Transaktion 09222115557495809781

Dokument

RB KMT Robotic Solutions Holding AB_556724-
6649_2022-12-31 (1)
Huvuddokument
1 sida
*Startades 2023-06-29 10:02:54 CEST (+0200) av Malin
Lanneborn (ML)*
Färdigställt 2023-06-29 16:46:41 CEST (+0200)

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SHAPE

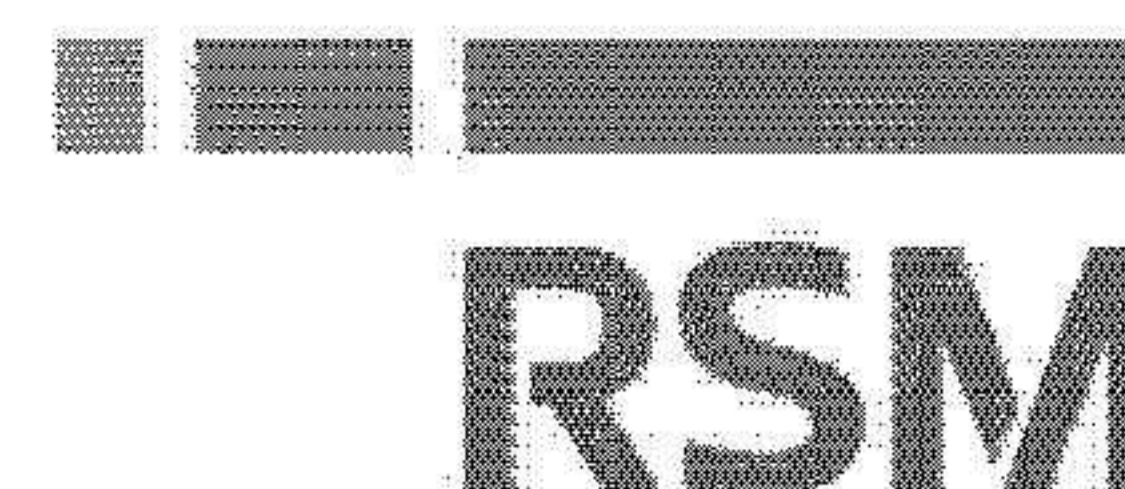
TECHNOLOGIES GROUP

SHAPE TECHNOLOGIES GROUP, INC.

**ANNUAL REPORT FOR THE YEAR ENDED
December 31, 2022**

FINANCIAL STATEMENTS

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RSM US LLP

Independent Auditor's Report

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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for leases in 2022 due to the adoption of Financial Accounting Standards Board's Accounting Standards Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

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.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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 30, 2022

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

	December 31,	December 31,
	2022	2021
ASSETS		
Current assets:		
Cash	\$ 11,324	\$ 14,621
Receivables, net	71,945	60,133
Inventories, net	118,586	99,719
Prepaid expenses and other current assets	27,133	18,843
Total current assets	228,988	193,316
Property, plant and equipment, net	43,712	45,936
Operating lease right-of-use assets	26,951	—
Goodwill, net	80,427	90,454
Other intangible assets, net	32,603	37,242
Deferred income taxes	1,110	2,286
Due from Parent Company	9,790	9,790
Other long-term assets	6,898	5,966
Total assets	\$ 430,479	\$ 384,990
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 40,727	\$ 35,716
Bank term debt, short-term	3,500	3,500
Other debt, short-term	3,424	1,882
Accrued payroll and related liabilities	12,698	12,079
Taxes payable and other accrued taxes	8,139	3,236
Accrued expenses	12,968	10,487
Customer deposits and deferred revenue	39,782	35,324
Operating lease liabilities, short-term	4,599	—
Total current liabilities	125,837	102,224
Bank term debt, net, long-term	328,149	330,164
Revolving loan	5,000	—
Operating lease liabilities, long-term	22,352	—
Other debt, long-term	54	3,306
Deferred income taxes	3,843	3,300
Long-term payables	12,542	10,318
Total liabilities	497,777	449,312
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	131,396
Accumulated deficit	(159,405)	(164,222)
Accumulated other comprehensive loss:		
Cumulative translation adjustment, net of tax	(39,304)	(31,496)
Total stockholders' deficit	(67,298)	(64,322)
Total liabilities and stockholders' deficit	\$ 430,479	\$ 384,990

See Accompanying Notes to Consolidated Financial Statements

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

	Year ended	
	December 31,	
	2022	2021
Sales	\$ 452,853	\$ 397,109
Cost of sales	286,326	248,221
Gross margin	166,527	148,888
Operating expenses:		
Sales and marketing	63,227	59,805
General and administrative	62,367	60,011
Research and development	9,328	9,603
Impairment of long-lived assets	152	1,020
Restructuring charges	346	1,935
Total operating expenses	135,420	132,374
Operating income	31,107	16,514
Other income (expense), net:		
Interest expense, net	(18,522)	(13,340)
Foreign exchange gains (losses)	540	(806)
Other, net	189	174
Other expense, net	(17,793)	(13,972)
Income before income taxes	13,314	2,542
Income tax provision	(8,497)	(2,926)
Net income (loss)	<u>\$ 4,817</u>	<u>\$ (384)</u>

See Accompanying Notes to Consolidated Financial Statements

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

	Year ended	
	December 31,	
	<u>2022</u>	<u>2021</u>
Net income (loss)	\$ 4,817	\$ (384)
Other comprehensive loss:		
Cumulative translation adjustment, net of tax	<u>(7,808)</u>	<u>(5,723)</u>
Total comprehensive loss	<u>\$ (2,991)</u>	<u>\$ (6,107)</u>

See Accompanying Notes to Consolidated Financial Statements

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

	Year ended	
	December 31,	
	2022	2021
Cash flows from operating activities:		
Net income (loss)	\$ 4,817	\$ (384)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	8,146	10,227
Amortization of intangible assets	17,814	19,465
Amortization of deferred financing costs	1,131	1,895
Reduction of right-of-use asset - operating lease	432	—
Asset impairment charges	152	1,020
Stock-based compensation	15	33
Warranty expense	2,125	2,059
Inventory obsolescence expense	1,931	1,073
Bad debt expense	580	120
Deferred income taxes	2,223	279
Earn-out contingent liability adjustments	3,242	2,548
Changes in operating assets and liabilities, net of acquisitions:		
Receivables, net	(12,176)	(2,019)
Inventories, net	(22,890)	(16,640)
Other assets	(9,388)	(2,990)
Accounts payable	5,408	511
Accrued expenses	2,169	(996)
Customer deposits and deferred revenue	3,487	16,167
Other long-term liabilities	1,161	(130)
Operating lease liability	(432)	—
Net cash provided by operating activities	<u>9,947</u>	<u>32,238</u>
Cash flows from investing activities:		
Expenditures for property and equipment, net	(8,935)	(7,222)
Expenditures for intangible assets	(1,080)	(848)
Acquisitions, net of cash acquired	(3,631)	(939)
Net cash used in investing activities	<u>(13,646)</u>	<u>(9,009)</u>
Cash flows from financing activities:		
Repayments of bank term debt	(3,500)	(3,500)
Net borrowings (repayments) under revolving credit facilities	5,000	(13,500)
Repayments of long-term debt	(53)	(732)
Repayments of short-term debt	(1,412)	(1,710)
Repayments on capital leases	—	(125)
Net cash provided by (used in) financing activities	<u>35</u>	<u>(19,567)</u>
Effects of changes in foreign currency exchange rates on cash and restricted cash	408	(281)
Net change in cash and restricted cash	(3,256)	3,381
Cash and restricted cash, beginning of period	18,892	15,511
Cash and restricted cash, end of period	<u>\$ 15,636</u>	<u>\$ 18,892</u>

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

	Year ended December 31,	
	2022	2021
Supplemental disclosures of cash flow information:		
Non-cash acquisition consideration	\$ 491	\$ 1,468
Non-cash right of use assets obtained in exchange for new operating lease liabilities	5,540	—
Cash paid during the period for:		
Interest	16,446	11,447
Income taxes	4,313	2,768

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, 2020	63	\$ —	\$ 131,363	\$ (163,838)	\$ (25,773)	\$ (58,248)
Net loss	—	—	—	(384)	—	(384)
Currency translation adjustment, net of tax	—	—	—	—	(5,723)	(5,723)
Stock-based compensation	—	—	33	—	—	33
Balances, December 31, 2021	<u>63</u>	<u>\$ —</u>	<u>\$ 131,396</u>	<u>\$ (164,222)</u>	<u>\$ (31,496)</u>	<u>\$ (64,322)</u>
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	<u>63</u>	<u>\$ —</u>	<u>\$ 131,411</u>	<u>\$ (159,405)</u>	<u>\$ (39,304)</u>	<u>\$ (67,298)</u>

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 provides UHP waterjet pumps, robotic cutting solutions 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. SHAPE also designs and manufactures waterjet cutting solutions.

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, automotive, food processing, 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,	
	2022	2021
Foreign exchange gains (losses), net presented in cost of goods sold	\$ 22	\$ (23)
Foreign exchange gains (losses), net presented in other expense, net	540	(806)
Total	<u>\$ 562</u>	<u>\$ (829)</u>

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

The Company's cash consists of demand deposits in large financial institutions. At times, balances may exceed federally insured limits. At December 31, 2022, the Company had cash of \$9.0 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 doubtful accounts resulting from the inability or unwillingness of customers to make required payments. Management determines the allowance for doubtful accounts by evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. The Company prepares an analysis of its ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts.

Based on this evaluation, the Company establishes a reserve 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 potential collection problems provide the Company with sufficient information to establish a reasonable estimate for an allowance for doubtful accounts.

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 recorded based on recent sales history and current quantities on-hand.

Leases

Effective January 1, 2022, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02 *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under the previous guidance. The original guidance required application on a modified retrospective bases with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, *Targeted Improvements to ASC 842*, which included an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, *Leases*, as the date of initial application of transition, which the Company elected.

The Company elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Company does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Company has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Company made an accounting policy election available to non-public companies to utilize the regional risk-free borrowing rates for each business unit, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable, they will be incurred.

The Company has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle, and equipment asset classes. The non-lease components typically represent additional services transferred to the Company, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

As a result of the adoption of ASC 842 on January 1, 2022, the Company recorded both operating lease ROU assets and lease liabilities of \$26.3 million, respectively. The adoption of the new lease standard did not materially impact consolidated net income or consolidated cash flows and did not result in a cumulative effect adjustment to the opening balance of retained earnings for the year ended December 31, 2022.

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, 2022 and 2021, 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, 2022 and 2021, 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 soft, trademarks, existing technology, patents and non-compete agreements. The Company capitalizes application fees, license fees, legal and other costs of successfully defending a patent from infringement, as well as the costs of successfully defending a trademark or trade name from infringement. The remaining costs are expensed as incurred.

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 impairment exists based on these projections, an adjustment will be made to the carrying amounts or remaining lives of the asset group to reflect the amount of 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, 2022 and 2021. The Company recorded an impairment charge of \$152,000 and \$1.0 million related to equipment and leasehold improvements for discontinued product lines for the years ended December 31, 2022 and 2021, respectively.

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, 2022 and 2021, the Company recorded amortization of deferred financing costs of \$1.1 million and \$1.9 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. Certain contracts with customers contain a customer acceptance clause. In these circumstances, the Company recognizes revenue upon customer acceptance provided all revenue recognition criteria have been met.

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, 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,	
	2022	2021
Revenue recognized at a point in time	\$ 333,815	\$ 297,239
Revenue recognized over time	119,038	99,870
Total sales	<u>\$ 452,853</u>	<u>\$ 397,109</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 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 \$39.8 million and \$35.3 million at December 31, 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 \$1.1 million and \$1.3 million for the years ended December 31, 2022 and 2021, respectively.

Research and Development

Research and development efforts undertaken by the Company are expensed as incurred. Research and development expenses were \$9.3 million and \$9.6 million for the years ended December 31, 2022 and 2021, 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, 2022 and 2021 the Company did not have any material capitalized software development costs.

Sales and Long-Lived Assets by Region

The table below presents the Company's sales and long-lived assets categorized by geographical region, (in thousands):

	Years ended	
	December 31,	
	2022	2021
Sales by Geographic Region:		
United States	\$ 264,260	\$ 222,737
Europe, Middle East, Africa	100,223	96,522
Asia Pacific	38,597	37,428
Canada	28,183	25,456
Latin America	21,590	14,966
Total	<u>\$ 452,853</u>	<u>\$ 397,109</u>
	December 31,	
	2022	2021
Long-Lived Assets:		
United States	\$ 109,911	\$ 109,701
Europe, Middle East, Africa	44,350	33,185
Asia Pacific	24,860	27,521
Canada	8,936	8,019
Latin America	1,121	1,172
Total	<u>\$ 189,178</u>	<u>\$ 179,598</u>

Recently Adopted Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-08 *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (Topic 805)*. This ASU requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities (deferred revenue) from acquired contracts using the revenue recognition guidance in Topic 606. At the acquisition date, the acquirer applies the revenue model as if it had originated the acquired contracts. The Company adopted ASU 2021-08 starting 2022, which did not have a material impact on our consolidated financial statements.

In December 2019, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Simplifying the Accounting for Income Taxes*, as part of its initiative to reduce complexity in account standards. The amendments in the ASU include removing exceptions to incremental intraperiod tax allocations of losses and gains from financial statement components, exceptions to the method of recognizing income taxes on interim period losses, and exceptions to deferred tax liability recognition related to foreign subsidiary investments. In addition, the ASU requires that entities recognize franchise tax based on an incremental method and requires an entity to evaluate the accounting for step-ups in the tax basis of goodwill as inside or outside of a business combination. The Company adopted ASU 2019-12 starting 2022, which did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued accounting guidance, *Measurement of Credit Losses on Financial Instruments*, which requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

Note 2: Business Combinations

2022 Acquisition of Evomatic

In 2022, the Company acquired 100% of the equity interest in Evomatic AB ("Evomatic"), a Sweden-based robotic and custom automation integrator for \$3.6 million, net of cash acquired. The acquisition was funded with cash on hand and accounted for as a business combination. The acquisition of Evomatic expands our automation capabilities in high speed, path intensive trimming applications across the European market.

The acquisition agreement did not contain an earn-out provision, however there is a holdback of \$491,000 due to be paid on November 30, 2023. The purpose of this holdback is to provide security for any claim under the specific indemnities listed in the acquisition agreement. As of December 31, 2022, the Company has recorded a short-term liability with a fair value of \$491,000.

Under the acquisition method, assets acquired and liabilities assumed are recorded at their fair values as of the acquisition date. The fair value of the identifiable assets acquired includes accounts receivable, and the Company believes the fair value of accounts receivable approximates the contractual amount. The Company engaged a valuation specialist to value the definite-lived intangible assets using the following approaches to determine value - the income, market and cost approaches. Any excess of the purchase price over the fair values of the net assets acquired is recorded as goodwill, which is not amortized for local country tax purposes. The allocation of the purchase price was as follows (in thousands):

Cash consideration, net of cash acquired	\$ 3,140
Holdback consideration	491
Total purchase price	<u>\$ 3,631</u>
Purchase price allocation:	
Current assets	\$ 3,910
Deferred tax assets and non-current assets	461
Definite-lived intangible assets	2,230
Goodwill	3,990
Total assets acquired	<u>10,591</u>
Current liabilities	6,499
Deferred tax liabilities and non-current liabilities	461
Total liabilities assumed	<u>6,960</u>
Net assets acquired	<u>\$ 3,631</u>

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, of 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 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. In the year ended December 31, 2022, the Company paid \$2.7 million related to the first year of the three year earn-out period. For the years ended December 31, 2022 and December 31, 2021, the Company recorded expense of \$5.9 million and \$2.2 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 \$11.5 million as of December 31, 2022.

Note 3: Receivables, net

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

	December 31,	
	2022	2021
Trade accounts receivable	\$ 62,456	\$ 54,091
Unbilled revenues	247	872
Costs and estimated earnings in excess of billings on contracts for customized equipment	11,127	7,236
	<u>73,830</u>	<u>62,199</u>
Less: allowance for doubtful accounts	(1,885)	(2,066)
Receivables, net	<u>\$ 71,945</u>	<u>\$ 60,133</u>

Unbilled revenues do not contain any amounts that are expected to be collected after one year.

Activity in the allowance for doubtful accounts was as follows (in thousands):

	Years ended	
	December 31,	
	2022	2021
Beginning balance	\$ 2,066	\$ 3,008
Provision for doubtful receivables	580	120
Write-offs and adjustments	(761)	(1,062)
Ending balance	<u>\$ 1,885</u>	<u>\$ 2,066</u>

Note 4: Inventories, net

Inventories consisted of the following (in thousands):

	December 31,	
	2022	2021
Raw materials, parts and components	\$ 111,255	\$ 100,276
Work in process	7,231	5,091
Finished goods	10,219	4,985
Reserve for obsolete and excess inventory	(10,119)	(10,633)
Inventories, net	<u>\$ 118,586</u>	<u>\$ 99,719</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. During 2022 and 2021, the Company evaluated on-going projects and product lines and determined to write-down certain assets as a result. The Company recorded an impairment charge of \$152,000 and \$1.0 million for the years ended December 31, 2022 and 2021, respectively, for certain property, plant and equipment, which is included in Impairment of long-lived assets on the consolidated statements of operations.

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

	Range of useful lives	December 31,	
		2022	2021
Machinery and equipment	5 - 7 years	\$ 46,525	\$ 47,071
Land and buildings	10 - 40 years for buildings, indefinite for land	23,504	23,852
Computer equipment and software	3 years	20,783	19,599
Leasehold improvements	Over the shorter of the life of the asset or the remaining lease term	4,219	3,797
Furniture and fixtures	3 years	3,114	3,120
Property and equipment not yet placed in service	N/A	4,233	2,550
		<u>102,378</u>	<u>99,989</u>
Accumulated depreciation		(58,666)	(54,053)
Property, plant and equipment, net		<u>\$ 43,712</u>	<u>\$ 45,936</u>

Depreciation expense was recorded as follows (in thousands):

	Years ended December 31,	
	2022	2021
Depreciation expense	\$ 8,146	\$ 10,227

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,	
		2022	2021
Goodwill	7.0	\$ 114,393	\$ 113,094
Less: accumulated amortization		(33,966)	(22,640)
Total goodwill, net		<u>\$ 80,427</u>	<u>\$ 90,454</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,	
	2022	2021
Amortization of goodwill	\$ 11,326	\$ 11,402

Expected amortization of goodwill held as of December 31, 2022 is as follows (in thousands):

Year	Amounts
2023	\$ 11,489
2024	11,489
2025	11,489
2026	11,489
2027	11,489
Thereafter	<u>22,982</u>
	<u>\$ 80,427</u>

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

	Weighted average lives in years	December 31,	
		2022	2021
Customer relationships	8.1	\$ 85,615	\$ 86,281
Existing technology	5.6	48,297	49,029
Trade names - indefinite lived	Indefinite	22,314	22,748
Patents	7.2	20,926	20,355
Non-compete agreements	2.9	3,662	3,708
Trade names - definite lived	6.0	3,949	3,255
In-process research and development	Indefinite	183	193
		184,946	185,569
Less: accumulated amortization		(152,343)	(148,327)
Total intangible assets, net		\$ 32,603	\$ 37,242

Amortization expense was recorded as follows (in thousands):

	Years ended December 31,	
	2022	2021
Amortization of intangible assets	\$ 6,488	\$ 8,063

Expected amortization of definite-lived intangible assets held as of December 31, 2022 is as follows (in thousands):

Year	Amounts
2023	\$ 4,244
2024	2,333
2025	1,396
2026	889
2027	356
Thereafter	888
	\$ 10,106

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 of the Company's assets. The Bank Term Debt accrues interest at a base rate plus 2% or at a rate equal to the Eurodollar 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, 2022 was 4.7% (effective rate of 7.1% at December 31, 2022). 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, 2022 was \$334.6 million.

On August 31, 2022, the Company amended its revolving credit facility agreement to extend the maturity date to January 2025. The revolving credit facility accrues interest at a base rate plus 2% or at a rate equal to the secured overnight financing rate (SOFR) rate plus 3%. At December 31, 2022 and 2021, there were no borrowings under that facility.

On August 9, 2022 the Company amended its ABL credit agreement to extend the maturity date to 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, 2022, the Company had availability of \$47.0 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, 2022 and December 31, 2021, there were borrowings of \$5 million and \$0 under the ABL facility, respectively. The weighted-average interest rate on the ABL facility for the year ended December 31, 2022 was 5.5%.

At December 31, 2022 and 2021, the Company's unamortized deferred financing costs related to the Bank Term Debt was \$3 million and \$4.5 million, respectively, and was netted against the Bank Term Debt's long-term principal balance.

At December 31, 2022, the Company's unamortized deferred financing costs related to the ABL Facility were \$0.8 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 and Other debt, long-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
2023	\$ 11,782
2024	3,542
2025	327,663
2026	28
2027	15
Thereafter	73
	<u>343,103</u>
Deferred financing costs ⁽¹⁾	(2,976)
Total financing arrangements, net	<u>\$ 340,127</u>

(1) Amounts do not include \$0.8 million of deferred financing costs, net included in other long-term assets on the consolidated balance sheet at December 31, 2022, 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,	
	2022	2021
Beginning balance	\$ 2,082	\$ 2,481
Warranty provision	2,125	2,059
Settlements made	(2,048)	(2,458)
Ending balance	<u>\$ 2,159</u>	<u>\$ 2,082</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,	
	2022	2021
Income before income taxes:		
United States income (loss)	\$ 4,200	\$ (2,194)
Foreign income	9,114	4,736
Total income before income taxes	<u>\$ 13,314</u>	<u>\$ 2,542</u>

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

	Years ended	
	December 31,	
	2022	2021
Federal	\$ (111)	\$ 555
State	(622)	(297)
Foreign	(6,358)	(3,272)
Current tax provision	<u>(7,091)</u>	<u>(3,014)</u>
Federal	187	804
State	(29)	(18)
Foreign	(1,564)	(698)
Deferred tax benefit (provision)	<u>(1,406)</u>	<u>88</u>
Income tax provision	<u>\$ (8,497)</u>	<u>\$ (2,926)</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,	
	2022	2021
Income tax provision at federal statutory rate	21.0 %	21.0 %
State and local taxes net of federal taxes	4.5 %	11.6 %
Nondeductible/nontaxable items	17.4 %	87.1 %
Foreign operations	22.3 %	91.3 %
Valuation allowance	(39.0)%	44.4 %
Tax return to provision adjustments	(0.8)%	(34.5)%
Unrecognized tax benefits	4.7 %	(89.0)%
Research and development credits	33.7 %	(16.8)%
Income tax provision	<u>63.8 %</u>	<u>115.1 %</u>

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

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss carryforwards	\$ 7,485	\$ 13,519
Inventory	3,464	3,738
Interest	11,546	10,485
Research and development credits	994	6,340
Lease liability	3,630	—
Section 174 costs	1,705	—
Other	9,616	9,446
Deferred tax assets	38,440	43,528
Valuation allowance	(22,990)	(28,177)
Total deferred tax assets	15,450	15,351
Deferred tax liabilities:		
Intangible assets	(9,135)	(10,481)
Property, plant and equipment	(1,702)	(1,809)
ROU asset	(3,630)	—
Other	(3,716)	(4,075)
Deferred income tax liabilities	(18,183)	(16,365)
Net deferred income tax liabilities	\$ (2,733)	\$ (1,014)

The \$5.2 million decrease in the valuation allowance for deferred tax assets between December 31, 2022 and 2021 relates to the realizability of net operating losses, research and development credit, and the deduction for interest expense.

As of December 31, 2022 the Company had gross federal, state, and foreign net operating loss carryforwards of approximately \$200,000, \$40.0 million, and \$2.1 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 begin 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 preliminary estimate indicates that the Company will not be limited in the current period. A more formal analysis will be conducted prior to filing the tax return. As of December 31, 2022, the Company's research and development tax credit carryforwards for income tax purposes were \$1 million. If not utilized, a portion of the research and development tax credit carryforwards will begin to expire in 2039.

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,	
	2022	2021
Balance, beginning of year	\$ 7,948	\$ 8,684
Decreases related to cash settlements	(1,117)	—
Gross increases - tax positions in current period	779	1,134
Gross decreases - tax positions in prior periods	(272)	—
Gross decreases in tax positions due to lapse of statute of limitations	(22)	(1,870)
Balance, end of year	<u>\$ 7,316</u>	<u>\$ 7,948</u>

The \$7.3 million of unrecognized tax benefits as of December 31, 2022 if recognized, would affect the effective tax rate and would result in adjustments to other tax accounts, primarily deferred taxes. The Company estimated \$40,000 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. In addition, the unrecognized tax benefit balance can fluctuate due to the outcome of the research and development credit study.

The Company recorded interest and penalties of \$1.8 million and \$2.2 million in long-term payables in the consolidated balance sheets as of December 31, 2022 and 2021, respectively, related to uncertain tax positions. During the years ended December 31, 2022 and 2021 the Company recorded net interest (benefit)/expense of (\$245,000) and \$169,000, 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. There was an audit settlement of \$2.5 million with Germany covering years 2014-2017. The tax years 2018-2021 will be audited in 2023 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 2013.

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, 2022, 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 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. 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, 2022 and 2021.

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, 2022 and 2021:

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Life (Years)</u>
Outstanding at December 31, 2020, 2021 and 2022	8,816	\$ 353	
Options exercisable at December 31, 2022	2,576	353	1.9
Options vested and expected to vest at December 31, 2022	8,664	353	2.1

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>2022</u>	<u>2021</u>
Sales and marketing	11	13
General and administrative	\$ 4	\$ 14
Research and development	—	5
Cost of sales	—	1
Total	<u>\$ 15</u>	<u>\$ 33</u>

In addition to the Cash Awards, total unrecognized stock compensation expense includes \$1.5 million at December 31, 2022, 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 \$1.4 million and \$1.3 million for the years ended December 31, 2022 and 2021, 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, 2022 and 2021 (in thousands):

	December 31, 2022			Balance at December 31, 2022
	Level 1	Level 2	Level 3	
Earn-out contingent consideration (Note 2)	\$ —	\$ —	\$ 5,790	\$ 5,790

	December 31, 2021			Balance at December 31, 2021
	Level 1	Level 2	Level 3	
Earn-out contingent consideration (Note 2)	\$ —	\$ —	\$ 2,548	\$ 2,548

The earn-out contingent consideration was incurred from acquisitions 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, 2022 and December 31, 2021 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,	
	2022	2021
Beginning balance	\$ 2,548	\$ 498
Additions	5,790	2,548
Settlements	(2,664)	(560)
Adjustments to estimated liabilities (Note 2)	116	62
Ending balance	<u>\$ 5,790</u>	<u>\$ 2,548</u>

There were no significant transfers between any levels during the years ended December 31, 2022 and 2021.

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 no exceeding 10 years and generally contain multi-year renewal options, some of which are reasonably certain of exercise. The lease periods expire between 2023 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 \$8 million and \$7.5 million for the years ended December 31, 2022 and 2021 respectively.

Operating lease cost is recognized on a straight-line basis over the lease term. Components of operating lease expense were as follows for the year ended December 31, 2022 (in thousands):

	<u>Amounts</u>
Operating lease cost	\$ 4,676
Variable and short-term lease cost	3,285
Total operating lease cost	<u>\$ 7,961</u>

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

<u>Year</u>	<u>Amounts</u>
2023	\$ 4,599
2024	4,078
2025	3,456
2026	3,225
2027	3,201
Thereafter	11,016
Total Future lease payments	<u>29,575</u>
Less: imputed interest	(2,624)
Present value of lease liabilities	<u>\$ 26,951</u>

As of December 31, 2022, 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):

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash	\$ 11,324	\$ 14,621
Restricted cash included in prepaid expenses and other current assets	1,655	788
Restricted cash included in other long-term assets	2,657	3,483
Total cash and restricted cash shown in the consolidated statements of cash flows	<u>\$ 15,636</u>	<u>\$ 18,892</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

The Company had amounts due to the Parent Company of \$9.8 million at December 31, 2022 and 2021, and is included on the balance sheets as a long-term payable due to "the Parent Company," as it is not expected to be repaid during the next fiscal year.

On May 31, 2022, the Company entered into a 10 year lease with the prior owner of Evomatic, which resulted in \$292,000 in lease costs for the year ended December 31, 2022.

During 2022 and 2021, the Company also reimbursed expenses incurred by AIP, a stockholder in the Parent Company. These expenses were not significant.

Ascent Aerospace, an AIP portfolio company, purchases 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, are classified as current receivables and payables 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,	
	2022	2021
Sales	\$ 133	\$ 31
Expense reimbursements	87	396

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

	December 31,	
	2022	2021
Long-term receivables	9,790	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, 2022 and 2021, 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 costs incurred related to optimize 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,	
	2022	2021
Restructuring charges	\$ 346	\$ 1,935

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, 2021	\$ 301	\$ —	\$ —	\$ 301
Provision for restructuring events	149	—	649	798
Payments and adjustments	(450)	—	(649)	(1,099)
Balance at December 31, 2022	\$ —	\$ —	\$ —	\$ —

Note 17: Subsequent Events

Other than the matters discussed below, the Company performed an evaluation of subsequent events through March 30, 2022, 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, 2022.