

Årsredovisning

CT Northern Europe Holding AB

Org.nr 559342-5910

Räkenskapsår 2022-01-01 - 2022-12-31

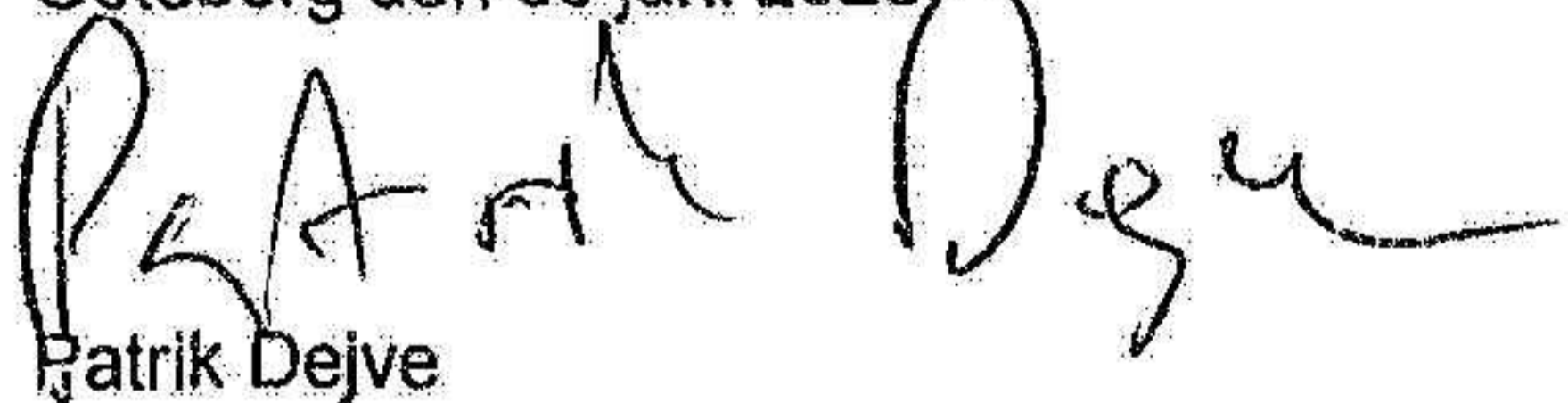
Fastställelseintyg

Undertecknad styrelseordförande intygar att resultaträkningen och balansräkningen i årsredovisningen har fastställts på årsstämman den 30 juni 2023.

Årsstämman beslöt att godkänna styrelsens förslag till resultatdisposition.

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

Göteborg den 30 juni 2023



Patrik Dejve

2023071713265

Årsredovisning

CT Northern Europe Holding AB

Org.nr 559342-5910

Räkenskapsår 2022-01-01 - 2022-12-31

2023071713236

ÅRSREDOVISNING FÖR RÄKENSKAPSÅRET 2022-01-01 - 2022-12-31

Styrelsen för CT Northern Europe Holding AB avger härmed följande årsredovisning.

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Styrelsens säte: Göteborg

Företagets redovisningsvaluta, om inte annat anges, i tusentals kronor (tkr).

Uppgifter inom parantes avser föregående år.

FÖRVALTNINGSBERÄTTELSE

Verksamheten

CT Northern Europe Holding AB, org. nr. 559342-5910, med säte i Göteborg är ett holdingföretag, företaget saknar anställda. Aktieinnehav i Creative Technology Finland OY, Creative Technology Norway AS, Stagelab AS och Creative Technology Northern Europe AB är företagets huvudsakliga tillgång.

Händelser under räkenskapsåret

I juni 2022 mottog företaget ett ovillkorat aktieägartillskott från det överordnade moderbolaget NEP Sweden Holding AB, org.nr 559009-2309, i form av samtliga aktier i Creative Technology Northern Europe AB, org.nr 556341-2930.

Ägarförhållanden

Företaget är ett helägt dotterföretag till NEP Sweden Holding AB, org.nr. 559009-2309 med säte i Stockholm.

Företaget ingår i en koncern där NEP Group Inc., org. nr. 80-0877943 med säte i Pittsburgh, USA upprättar koncernredovisning för den största koncernen. Koncernredovisningen finns att tillgå hos CT Northern Europe Holding AB, Bullgatan 31, 442 40 Kungälv.

Händelser efter balansdagen

Inga väsentliga händelser har skett efter balansdagen.

Risker och osäkerhetsfaktorer

Operativa risker

Då företaget inte bedriver någon aktiv verksamhet är operativa risker och osäkerhetsfaktorer minimerade.

Finansiella risker

Räntor

Koncernen i vilken CT Northern Europe Holding AB ingår finansieras bl a genom externa krediter i form av lån. Förändringar av räntan för dessa krediter kan påverka lönsamheten. Företaget påverkas således av utvecklingen på den finansiella marknaden vad avser tillgång till, och prissättning i form av räntor, på sådant kapital.

Resultat och ställning

Flerårsöversikt (tkr)	2022	2021
Nettoomsättning	-	-
Resultat efter finansiella poster	-23 848	-70 310
Soliditet*	39%	3%
Balansomslutning	1 122 587	479 483

* Justerat eget kapital i procent av balansomslutningen

Förslag till resultatdisposition

Till årsstämmans förfogande står följande vinstmedel (belopp i kronor):

Balanserad vinst	468 584 145
Årets förlust	-29 440 503
Summa	439 143 642

Styrelsen föreslår att vinstmedlen disponeras så att:

I ny räkning överföres	439 143 642
Summa	439 143 642

RESULTATRÄKNING

Belopp i tkr	Not	2022-01-01 -2022-12-31	2021-10-25 -2021-12-31
Rörelseintäkter			
Övriga rörelseintäkter		5 800	4 815
Summa rörelseintäkter		5 800	4 815
Rörelsekostnader			
Övriga externa kostnader		-208	-1 974
Summa rörelsekostnader		-208	-1 974
Rörelseresultat		5 592	2 841
Finansiella poster			
Nedskrivning av finansiella anläggningstillgångar		-10 000	-71 000
Räntekostnader och liknande resultatposter	3	-19 440	-2 151
Summa finansiella poster		-29 440	-73 151
Resultat efter finansiella poster		-23 848	-70 310
Lämnade koncernbidrag		-5 592	-2 841
Summa bokslutsdispositioner		-5 592	-2 841
Resultat före skatt		-29 440	-73 151
ÅRETS RESULTAT		-29 440	-73 151

BALANSRÄKNING

Belopp i tkr	Not	2022-12-31	2021-12-31
TILLGÅNGAR			
Anläggningstillgångar			
Finansiella anläggningstillgångar			
Andelar i koncernföretag	4	832 478	192 907
Fordringar hos koncernföretag		290 109	286 576
		1 122 587	479 483
Summa anläggningstillgångar		1 122 587	479 483
SUMMA TILLGÅNGAR			
		1 122 587	479 483
EGET KAPITAL OCH SKULDER			
Bundet eget kapital			
Aktiekapital	5	25	25
		25	25
Fritt eget kapital			
Balanserat resultat		468 583	87 000
Årets resultat		-29 440	-73 151
		439 143	13 849
Summa eget kapital		439 168	13 874
Långfristiga skulder			
Skulder till koncernföretag	6	683 419	465 609
		683 419	465 609
Summa långfristiga skulder		683 419	465 609
SUMMA EGET KAPITAL OCH SKULDER			
		1 122 587	479 483

RAPPORT ÖVER FÖRÄNDRING I EGET KAPITAL

Belopp i tkr

	<i>Bundet eget kapital</i>		<i>Fritt eget kapital</i>		Summa eget kapital
	Aktie-kapital	Balanserat resultat	Årets resultat		
Ingående balans per 25 oktober 2021	-	-	-	-	-
Årets resultat	-	-	-73 151	-73 151	-73 151
Summa värdeförändringar	-	-	-73 151	-73 151	-73 151
Insättning aktiekapital	25	-	-	-	25
Erhållet ovillkorat aktieägartillskott	-	87 000	-	-	87 000
Summa transaktioner med aktieägare	25	87 000	-	-	87 025
Utgående balans per 31 december 2021	25	87 000	-73 151		13 874
	Aktie-kapital	Balanserat resultat	Årets resultat		Summa eget kapital
Ingående balans per 1 januari 2022	25	87 000	-73 151		13 874
Omföring av föregående års resultat	-	73 151	73 151		-
Årets resultat	-	-	-29 440		-29 440
Summa värdeförändringar	-	73 151	43 711		-29 440
Erhållet ovillkorat aktieägartillskott	-	454 709	-		454 709
Summa transaktioner med aktieägare	-	454 709	-		454 709
Utgående balans per 31 december 2022	25	614 860	-29 440		439 143

NOTER

Not 1 Allmän information

CT Northern Europe Holding AB, org. nr. 559342-5910, med säte i Göteborg, är ett holdingföretag och helägt dotterföretag till NEP Sweden Holding AB, org.nr. 559009-2309 med säte i Stockholm.

Not 2 Redovisnings- och värderingsprinciper

Årsredovisningen har upprättats enligt Årsredovisningslagen (1995:1554) och BFNAR 2012:1 *Årsredovisning* ("K3").

Klassificering m m

Anläggningstillgångar, långfristiga skulder och avsättningar består i allt väsentligt enbart av belopp som förväntas återvinnas eller betalas efter mer än tolv månader räknat från balansdagen. Omsättningstillgångar och kortfristiga skulder består i allt väsentligt enbart av belopp som förväntas återvinnas eller betalas inom tolv månader räknat från balansdagen.

Värderingsprinciper m m

Tillgångar, avsättningar och skulder har värderats till anskaffningsvärden om inget annat anges nedan.

Fordringar

Fordringar är redovisade till anskaffningsvärde minskat med eventuell nedskrivning.

Likvida medel

Likvida medel inkluderar kassamedel och disponibla tillgodohavanden hos banker.

Aktieägartillskott

Aktieägartillskott som en ägare lämnar redovisas som en ökning av andelens redovisade värde. Aktieägartillskott som en ägare erhåller redovisas direkt i fritt eget kapital.

Eventualförpliktelser

En eventualförpliktelse är en möjlig förpliktelse till följd av inträffande händelser och vars förekomst endast kommer att bekräftas av att en eller flera osäkra framtida händelser, som inte helt ligger inom företagets kontroll, inträffar eller uteblir, eller en befintlig förpliktelse till följd av inträffade händelser, men som inte redovisas som skuld eller avsättning eftersom det inte är sannolikt att ett utflöde av resurser kommer att krävas för att reglera förpliktelsen eller förpliktelsens storlek inte kan beräknas med tillräcklig tillförlitlighet.

2023071713242

Not 2 Redovisnings- och värderingsprinciper, forts.

Andelar i koncernföretag

Andelar i dotterföretag redovisas till anskaffningsvärde. Utdelning från dotterföretag redovisas som intäkt när rätten att få utdelning bedöms som säker och kan beräknas på ett tillförlitligt sätt.

Nedskrivningstest

Om det finns interna eller externa indikationer på att värdet på finansiella tillgångar understiger uppskattat återvinningsvärde sker ett nedskrivningstest. Återvinningsvärdet utgörs av det högre av tillgångens nettoförsäljningsvärde och dess nyttjandevärde. Nedskrivningar redovisas i resultaträkningen bland kostnaderna för den funktion tillgången är hänförlig till.

Koncernredovisning

Med stöd av ÅRL 7 kap. 2 § upprättas ingen särskild koncernredovisning för denna underkoncern. Närmast överordnade moderföretag som upprättar koncernredovisning i vilken företaget ingår är NEP Group Inc., org. nr. 80-0877943 med säte i Pittsburgh, USA.

Not 3 Räntekostnader

	2022	2022
Övriga räntekostnader	-19 440	-2 151
Summa	-19 440	-2 151

Not 4 Andelar i koncernföretag

	2022-12-31	2021-12-31
Ingående anskaffningsvärden	192 907	-
Förvärv	639 571	192 907
Utgående ackumulerade anskaffningsvärden	832 478	192 907
Utgående redovisat värde	832 478	192 907

Innehav i dotterföretag	Kapital- andel	Rösträtts- andel	Antal andelar	Redovisat värde
Creative Technology Finland Oy	100%	100%	133 800	74 420
Creative Technology Norway AS	100%	100%	200 000	331 406
Stagelab AS	100%	100%	1 000 000	5 725
Bright Group BGN Holding AB	100%	100%	50 000	-
Bright Rental AB	100%	100%	25 000	-
Creative Technology Northern Europe AB	100%	100%	10 000	420 928
Förvärvstidpunkt: 10 november 2021				
Summa				832 478

CT Northern Europe Holding AB
559342-5910

Not 5 Aktiekapital

Aktiekapitalet består av 25 000 aktier med ett kvotvärde om 1 krona.

Not 6 Långfristiga skulder

	2022-12-31	2021-12-31
Förfaller mellan 2 och 5 år efter balansdagen		
Skulder till koncernföretag	683 419	465 609
Summa	683 419	465 609

Not 7 Transaktioner med närstående

Transaktioner i CT Northern Europe Holding AB är främst hänförlig till finansiering av förvärv. CT Northern Europe Holding AB har en koncernskuld till koncernföretaget NEP/NCP Holdco., Inc.

NEP/NCP Holdco., Inc är ett överordnat koncernföretag vilka genom ledande befattningshavare har inflytande över de underordnade företaget CT Northern Europe Holding AB.

Koncernskulden uppgår per balansdagen till 683 419 tkr (465 609 tkr).

Not 8 Väsentliga händelser efter balansdagen

Inga väsentliga händelser har skett efter balansdagen.

CT Northern Europe Holding AB
559342-5910

Not 9 Disposition av företagets resultat

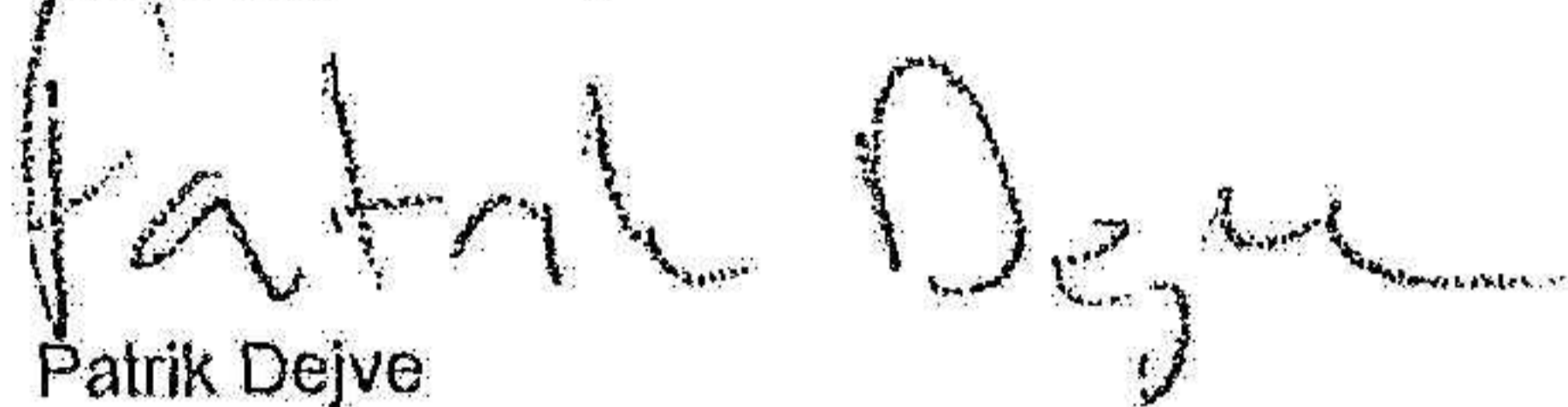
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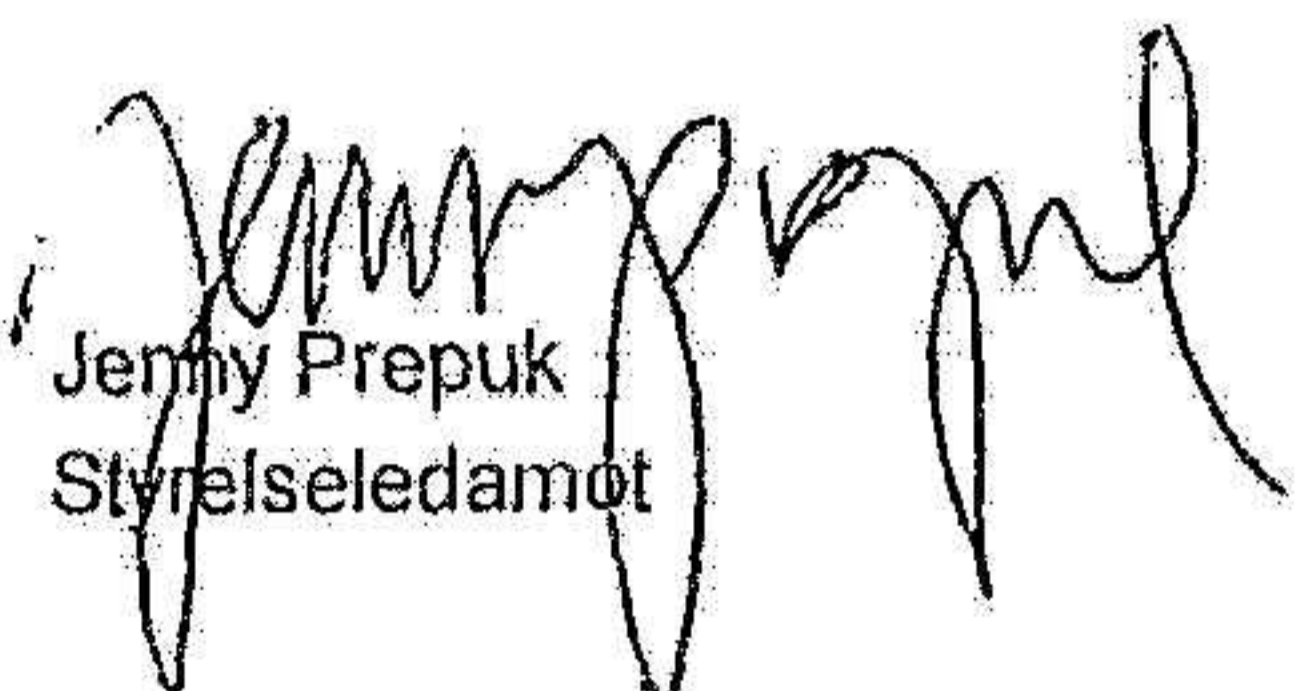
I ny räkning överföres	439 143 642
Summa	439 143 642

Göteborg den 30 juni 2023



Patrik Dejve
Styrelseordförande

Dean Naccarato
Styrelseledamot



Jenny Prepuk
Styrelseledamot

2023071713245

CT Northern Europe Holding AB
559342-5910

Not 9 Disposition av företagets resultat

Till årsstämman förfogande står följande vinstmedel (belopp i kronor):

	2022-12-31
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Summa	439 143 642

Göteborg den 30 juni 2023

Patrik Dejve
Styrelseordförande



Dean Naccarato
Styrelseledamot

Jenny Prepuk
Styrelseledamot

NEP Group Holdings, Inc. and Subsidiaries

Consolidated Financial Statements as of and for
the Years Ended December 31, 2022 and 2021,
and Independent Auditor's Report

NEP GROUP HOLDINGS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
NEP Group Holdings, Inc.
Pittsburgh, Pennsylvania

Opinion

We have audited the consolidated financial statements of NEP Group Holdings, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as 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 its operations and its 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 adopted new accounting guidance related to the adoption of Accounting Standards Codification (ASC) 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 for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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



March 31, 2023

NEP GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2022 AND 2021 (Amounts in thousands, except share and per share amounts)

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 48,525	\$ 44,009
Accounts receivable—net of allowance for doubtful accounts of \$4,009 and \$4,171 at December 31, 2022 and 2021, respectively	256,040	223,653
Prepaid expenses and other current assets	<u>81,538</u>	<u>76,707</u>
Total current assets	386,103	344,369
PROPERTY, PLANT, AND EQUIPMENT—Net	765,507	701,500
OPERATING LEASE RIGHT-OF-USE ASSETS	258,951	
OTHER ASSETS	6,523	5,087
DEFERRED TAXES	3,954	3,626
INTANGIBLES—Net	328,683	369,856
GOODWILL	<u>1,555,404</u>	<u>1,619,706</u>
TOTAL ASSETS	<u>\$3,305,125</u>	<u>\$3,044,144</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 80,707	\$ 61,338
Accrued expenses	173,274	187,179
Current portion of long-term debt	28,306	42,634
Current portion of operating lease liabilities	52,927	
Current portion of finance lease liabilities	32,642	29,998
Deferred revenue	<u>38,534</u>	<u>41,688</u>
Total current liabilities	406,390	362,837
LONG-TERM DEBT	2,342,354	2,202,761
LONG-TERM OPERATING LEASE LIABILITIES	213,100	
FINANCE LEASE LIABILITIES	40,618	26,848
OTHER LIABILITIES	11,396	35,345
DEFERRED TAXES	<u>10,546</u>	<u>15,006</u>
Total liabilities	<u>3,024,404</u>	<u>2,642,797</u>
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDERS' EQUITY:		
Common stock: \$0.01 par value—authorized, 12,500,000 shares; issued 9,534,704 and 9,534,481 shares as of December 31, 2022 and 2021, respectively	95	96
Treasury stock, at cost 42,390 and 41,313 shares as of December 31, 2022 and 2021, respectively	(3,996)	(3,886)
Accumulated other comprehensive loss	(32,824)	(59,348)
Additional paid-in capital	1,008,520	997,616
Noncontrolling interest	(22)	406
Stock subscription	(950)	(950)
Retained deficit	<u>(690,102)</u>	<u>(532,587)</u>
Total shareholders' equity	<u>280,721</u>	<u>401,347</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$3,305,125</u>	<u>\$3,044,144</u>

See accompanying notes to consolidated financial statements.

NEP GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Amounts in thousands)

	2022	2021
REVENUE	\$1,791,424	\$1,444,611
COSTS OF SERVICES, EXCLUSIVE OF DEPRECIATION AND AMORTIZATION	730,347	556,710
ENGINEERING	319,072	258,436
SELLING, GENERAL, AND ADMINISTRATIVE	422,210	355,536
DEPRECIATION AND AMORTIZATION	<u>276,316</u>	<u>286,064</u>
INCOME (LOSS) FROM OPERATIONS	43,479	(12,135)
INTEREST EXPENSE	160,704	135,522
OTHER (INCOME) EXPENSE	<u>38,935</u>	<u>6,068</u>
LOSS BEFORE INCOME TAXES	(156,160)	(153,725)
INCOME TAX (EXPENSE) BENEFIT	<u>(1,582)</u>	<u>9,749</u>
NET LOSS	(157,742)	(143,976)
(LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(227)</u>	<u>86</u>
NET LOSS ATTRIBUTABLE TO NEP GROUP HOLDINGS, INC.	(157,515)	(144,062)
UNREALIZED GAIN (LOSS) ON INTEREST RATE SWAP CONTRACTS—Net of tax of \$758 and \$318 for the years ended December 31, 2022 and 2021, respectively	62,635	(38,910)
FOREIGN TRANSLATION ADJUSTMENT	<u>(36,111)</u>	<u>50,145</u>
COMPREHENSIVE LOSS	<u>\$ (130,991)</u>	<u>\$ (132,827)</u>

See accompanying notes to consolidated financial statements.

NEP GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Amounts in thousands, except share amounts)

	Common Stock		Accumulated Other Comprehensive	Additional Paid-In Capital	Treasury Stock		Stock Subscription	Noncontrolling Interest	Retained Deficit	Total
	Shares	Cost	Loss		Shares	Cost				
BALANCE—December 31, 2020	9,125,121	\$ 92	\$(70,583)	\$ 947,436	28,744	\$(2,606)	\$(950)	\$ 454	\$(388,525)	485,318
Foreign translation adjustment	-	-	50,145	-	-	-	-	-	-	50,145
Unrealized loss on interest rate swap contracts—net of \$318 tax	-	-	(38,910)	-	-	-	-	-	-	(38,910)
Purchase of treasury stock	(12,569)	-	-	-	12,569	(1,280)	-	-	-	(1,280)
Proceeds of issuance of capital stock	380,616	4	-	38,757	-	-	-	-	-	38,761
Stock-based compensation	-	-	-	11,423	-	-	-	-	-	11,423
Dividends to non-controlling interest	-	-	-	-	-	-	-	(134)	-	(134)
Income attributable to noncontrolling interest	-	-	-	-	-	-	-	86	-	86
Net loss	-	-	-	-	-	-	-	-	(144,062)	(144,062)
BALANCE—December 31, 2021	9,493,168	96	(59,348)	997,616	41,313	(3,886)	(950)	406	(532,587)	401,347
Foreign translation adjustment	-	-	(36,111)	-	-	-	-	-	-	(36,111)
Unrealized gain on interest rate swap contracts—net of \$758 tax	-	-	62,635	-	-	-	-	-	-	62,635
Purchase of treasury stock	(1,077)	(1)	-	-	1,077	(110)	-	-	-	(111)
Proceeds of issuance of capital stock	223	-	-	25	-	-	-	-	-	25
Stock-based compensation	-	-	-	10,879	-	-	-	-	-	10,879
Dividends to non-controlling interest	-	-	-	-	-	-	-	(201)	-	(201)
Loss attributable to noncontrolling interest	-	-	-	-	-	-	-	(227)	-	(227)
Net loss	-	-	-	-	-	-	-	-	(157,515)	(157,515)
BALANCE—December 31, 2022	<u>9,492,314</u>	<u>\$ 95</u>	<u>\$(32,824)</u>	<u>\$1,008,520</u>	<u>42,390</u>	<u>\$(3,996)</u>	<u>\$(950)</u>	<u>\$ (22)</u>	<u>\$(690,102)</u>	<u>\$ 280,721</u>

See accompanying notes to consolidated financial statements.

NEP GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Amounts in thousands)

	2022	2021
OPERATING ACTIVITIES:		
Net loss	\$(157,742)	\$(143,976)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	276,316	286,064
Stock-based compensation	10,879	11,423
Amortization of debt issuance costs	9,102	8,266
Unrealized transaction loss (gain) on foreign currency denominated assets and liabilities	33,345	(675)
Gain on sale or disposal of fixed assets	(1,365)	(806)
Deferred income taxes	1	(12,140)
Provision for doubtful accounts	86	676
Changes in net assets and liabilities:		
Accounts receivable	(42,207)	(52,283)
Prepaid expenses and other assets	13,997	(31,865)
Operating lease assets and liabilities	7,086	-
Accounts payable	21,059	23,017
Deferred revenue	(1,267)	(7,648)
Other accruals and liabilities	(1,418)	11,139
Net cash provided by operating activities	<u>167,872</u>	<u>91,192</u>
INVESTING ACTIVITIES:		
Capital expenditures	(318,035)	(180,444)
Acquisition of businesses—net of cash acquired of \$225 and \$12,066 for the years ended December 31, 2022 and 2021, respectively	(1,422)	(71,174)
Proceeds from insurance	-	607
Proceeds from the sale of assets	230	900
Net cash used in investing activities	<u>(319,227)</u>	<u>(250,111)</u>
FINANCING ACTIVITIES:		
Borrowings from line of credit	220,000	283,878
Repayment of line of credit	(51,485)	(321,860)
Proceeds from debt issuance	-	235,000
Repayment of debt obligations	(20,164)	(18,789)
Payment of debt issuance costs	(767)	(5,047)
Purchase of treasury stock	(110)	(1,280)
Payment of contingent consideration	-	(541)
Cash dividend to noncontrolling interest	(201)	(134)
Proceeds from issuance of common stock	25	-
Proceeds from sale leaseback	41,952	26,500
Repayment of financing lease obligations	(31,904)	(33,475)
Net cash provided by financing activities	<u>157,346</u>	<u>164,252</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(1,475)</u>	<u>(1,724)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,516	3,609
CASH AND CASH EQUIVALENTS—Beginning of period	<u>44,009</u>	<u>40,400</u>
CASH AND CASH EQUIVALENTS—End of period	<u>\$ 48,525</u>	<u>\$ 44,009</u>

(Continued)

NEP GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (Amounts in thousands)

	2022	2021
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$153,501</u>	<u>\$130,441</u>
Cash paid for taxes	<u>\$ 4,224</u>	<u>\$ 3,421</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING, AND FINANCING ACTIVITIES:		
Investing—capital expenditures in current liabilities	<u>\$ 29,353</u>	<u>\$ 15,091</u>
Financing—stock issued as consideration for acquisition	<u>\$ -</u>	<u>\$ 38,761</u>
See accompanying notes to consolidated financial statements.		(Concluded)

NEP GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (Amounts in thousands, except per share amounts)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business—NEP Group Holdings, Inc. and its subsidiaries (collectively referred to as the “Company” or “NEP Group”) is a provider of customized solutions to the live sports and entertainment markets offering various broadcast and live event services. The Company’s engineers design live event solutions and work side-by-side with the Company’s clients to customize the Company’s solutions and provide real-time support during a broadcast or live event to ensure a seamlessly delivered production. Over time, the Company has developed a wide range of services operating inside and outside of the United States and has supported events worldwide.

Organizational History—The Company was originally founded in 1986. On December 23, 2012, ASP NEP/NCP Holdco., Inc. was acquired by funds affiliated with Crestview Partners II GP, L.P. (collectively, “Crestview”) and certain members of executive management; through this acquisition, NEP Group, Inc. was formed.

On June 24, 2016, funds affiliated with the Carlyle Group purchased a significant minority investment in NEP Group (the “Carlyle Investment”). In conjunction with the Carlyle Investment, the Company authorized and issued 3,464,081 shares of Series A Convertible Preferred Stock (“Series A Preferred Stock”) at a stated value of \$83.72 per share; resulting in \$290.0 million in aggregate proceeds to the Company. The proceeds were subsequently used to finance a dividend of \$165.0 million to the existing shareholders of Class A common stock, fund the acquisition of Broadcast Solutions Group and for other general operating purposes.

On June 24, 2017 (“the Conversion Date”), each share of Series A Convertible Preferred Stock held by Carlyle Investment was automatically converted into Class A Common Stock at a conversion price of \$83.72 per share, subject to certain anti-dilution provisions. In conjunction with the Carlyle Investment, the Carlyle Group has the right of first offer to acquire the remaining shares of NEP Group, Inc. from Crestview in 2018.

On October 19, 2018 (the “Closing Date”), NEP Group, Inc. was acquired by funds affiliated with the Carlyle Group and certain members of executive management (the “NEP Group, Inc. Acquisition”); through this acquisition, NEP Group Holdings, Inc. (“NEP Group” or the “Company”) was formed.

Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Such statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany balances have been eliminated in consolidation.

Cash and Cash Equivalents—Cash equivalents are highly liquid investments purchased with an original maturity of 90 days or less. Cash and cash equivalents are stated at cost, which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable are recorded at invoiced amounts. The allowance for doubtful accounts reflects the Company’s best estimate of probable losses inherent in the receivable portfolio determined based on historical experience, specific allowances for known troubled accounts and other currently available evidence. The Company generally extends credit to clients without requiring collateral; however, prepayments are required from clients when a credit history has not been established. The allowance for doubtful accounts was \$4.0 million and \$4.2 million at December 31, 2022 and 2021, respectively.

Property, Plant, and Equipment—Property, plant and equipment are recorded on the basis of cost. Expenditures for renewals and improvements that extend the useful life or utility of the asset are capitalized and depreciated over the remaining useful life of the asset, and expenditures for ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method based on the estimated useful lives of the respective assets as follows:

Furniture and fixtures	4–10 years
Computer equipment	3–5 years
Vehicles	5–8 years
Broadcast and production equipment	5–10 years

Building and leasehold improvements are depreciated over the lesser of the useful life or the remaining lease term (including required lease periods and renewals deemed to be reasonably assured) at the date of acquisition of the leasehold improvement.

Accelerated depreciation methods are utilized for income tax purposes. Upon disposal or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is recognized in other income or other expense. Amortization of assets under capital leases is included in depreciation and amortization expense.

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 360, *Property, Plant, and Equipment*. If impairment indicators exist, the Company performs the required analysis and records impairment charges, if necessary. In conducting its analysis, the Company compares the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the undiscounted cash flows exceed the net book value, the long-lived assets are considered not to be impaired; if the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized and the book value of the long-lived asset is adjusted to fair value. An impairment loss is measured as the difference between the book value and the fair value of the long-lived assets. Cash flows are estimated using internal budgets based on recent sales data, projected future operational results and client commitments. Changes in economic or operating conditions impacting these estimates and assumptions could result in the impairment of long-lived assets.

Leasing Arrangements—During the year ended December 31, 2022, the Company adopted FASB Accounting Standards Codification (ASC) Topic 842, Leases, with an effective date of January 1, 2022, using the modified retrospective approach, for leases that existed on January 1, 2022. ASC 842 requires the Company to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use (ROU) asset on its consolidated balance sheet for most leases and disclose key information about leasing arrangements. The Company elected to apply certain practical expedients permitted under the transition guidance within ASC 842 to leases that commenced before January 1, 2022, including the package of practical expedients, which among

other things, permits lease agreements that are twelve months or less to be excluded from the balance sheet, and permits the Company not to reassess under the new standards its prior conclusion about lease identification, lease classification and initial direct costs. Due to the Company's election of these practical expedients, the Company carried forward certain historical conclusions for existing contracts, including conclusions related to the existence and classification of leases and to initial direct costs. ASC 842 applies to a number of arrangements to which the Company is party.

Whenever the Company enters into a new arrangement, it must determine, at the inception date, whether the arrangement is or contains a lease. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the rights to direct the use of and obtain substantially all the economic benefits from the use of the underlying asset.

If a lease exists, the Company must then determine the separate lease and non-lease components of the arrangement. Each right to use an underlying asset conveyed by a lease arrangement should generally be considered a separate lease component if it both: (i) can benefit the Company without depending on other resources not readily available to the Company and (ii) does not significantly affect and is not significantly affected by other rights of use conveyed by the lease. Aspects of a lease arrangement that transfer other goods or services to the Company but do not meet the definition of lease components are considered non-lease components. The consideration owed by the Company pursuant to a lease arrangement is generally allocated to each lease and non-lease component for accounting purposes. However, the Company has elected, for all of its leases, to not separate lease and non-lease components. Each lease component is accounted for separately from other lease components, but together with the associated non-lease components.

For each lease, the Company must then determine the lease term, the present value of lease payments and the classification of the lease as either an operating or finance lease.

The lease term is the period of the lease not cancellable by the Company, together with periods covered by: (i) renewal options the Company is reasonably certain to exercise, (ii) termination options the Company is reasonably certain not to exercise, and (iii) renewal or termination options that are controlled by the lessor.

The present value of lease payments is calculated based on:

- Lease payments – lease payments include fixed and certain variable payments, less lease incentives, together with amounts probable of being owed by the Company under residual value guarantees and, if reasonably certain of being paid, the cost of certain renewal options and early termination penalties set forth in the lease arrangement. Lease payments exclude consideration that is not related to the transfer of goods and services of the Company.
- Discount rate – the discount rate must be determined based on information available to the Company upon the commencement of the lease. Lessees are required to use the rate implicit in the lease whenever such rate is readily available; however, as the implicit rate in the Company's leases is generally not readily determinable, the Company generally uses the hypothetical incremental borrowing rate it would have to pay to borrow an amount equal to the lease payments, on a collateralized basis, over a timeframe similar to the lease term.

In making the determination of whether a lease is an operating lease or a finance lease, the Company considers the lease term in relation to the economic life of the leased asset, the present value of lease payments in relation to the fair value of the leased asset and certain other factors, including the lessee's or lessor's rights, obligations, and economic incentives over the term of the lease.

Generally, upon the commencement of a lease, the Company will record a lease liability and a ROU asset. However, the Company has elected, for all underlying leases with initial terms of twelve months or less (known as short-term leases), to not recognize a lease liability or ROU asset. Lease liabilities are initially recorded at lease commencement as the present value of future lease payments. ROU assets are initially recorded at lease commencement as the initial amount of the lease liability, together with the following, if applicable: (i) initial direct costs incurred by the lessee and (ii) lease payments made by the lessor net of lease incentives received, prior to lease commencement.

Over the lease term, the Company generally increases its lease liabilities using the effective interest method and decreases its lease liabilities for lease payments made. For finance leases, amortization and interest expense are recognized separately in the consolidated statements of operations, with amortization expense generally recorded on a straight-line basis over the lease term and interest expense recorded using the effective interest method. For operating leases, a single lease cost is generally recognized in the consolidated statements of operations on a straight-line basis over the lease term unless an impairment has been recorded with respect to a leased asset. Lease costs for short-term leases not recognized in the consolidated balance sheets are recognized in the consolidated statements of operations on a straight-line basis over the lease term. Variable lease costs not initially included in the lease liability and ROU asset impairment charges are expensed as incurred. ROU assets are assessed for impairment, similar to other long-lived assets.

See Note 9, Leases, for additional information.

Prior to the adoption of ASC 842, the Company accounted for leases under FASB ASC Topic 840, Leases (ASC 840).

Sale and Leaseback Transactions—The Company accounts for the sale and leaseback of broadcast equipment and vehicles in accordance with ASC 606, *Revenue from Contracts with Customers* and ASC 842, *Leases*. If the determination is made that a transaction is within the scope of the sale and leaseback guidance in ASC 842, the transaction is further assessed to determine if the transfer of the asset meets the requirements to be accounted for as a sale under ASC 606. If the sale and leaseback is at fair value, a gain or loss for the difference between the transaction price and the carrying amount of the underlying asset is immediately recognized. If the sale-leaseback transaction is not made at fair value, the difference between the transaction price and the fair value of the underlying asset is recognized as a financing asset or liability in accordance with ASC 842.

When a sale and leaseback does not qualify for sale accounting, the transaction is accounted for as a financing transaction and considered a "failed sale and leaseback" transaction. The Company continues depreciating the asset as if it was the legal owner and the sales proceeds received from the buyer-lessor are recognized as a financial liability.

Goodwill and Intangible Assets—Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized. Any intangibles acquired in business combinations are recorded based upon their fair value at the date of acquisition. Intangible assets with finite lives are amortized on a straight-line basis over the estimated economic lives of the assets and reviewed for impairment when indicators of potential impairment are present. Goodwill and indefinite-

lived intangible assets are tested for impairment at the reporting unit level at least annually; the Company performs its annual impairment test during the fourth quarter, as of October 1, and also tests for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company's reporting units include NEP Broadcast Services, NEP Live Events, and NEP Virtual Studios.

Based on impairment tests performed, the Company has not recognized an impairment of the Company's goodwill or other intangible assets during any of the periods presented herein.

Fair Value of Financial Instruments—The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable, approximate fair value due to their short maturities. The carrying value of the Company's long-term debt obligations approximates fair value because they have an interest rate that varies with market interest rates.

Debt Issuance Costs—The origination costs related to the issuance of debt are recorded as a reduction to the related liability and are amortized to interest expense over the contractual term of the loan facility using the effective interest method.

Business Combinations—The Company accounts for business combinations using the acquisition method of accounting. The acquisition method of accounting requires that the purchase price, including the fair value of contingent consideration, of the acquisition be allocated to the assets acquired and liabilities assumed using the fair value determined by management at the acquisition date.

The Company generally uses the following methodologies for valuing our significant acquired tangible and intangible assets:

- **Property, Plant, and Equipment**—The Company values by estimating the replacement cost of such assets.
- **(Un)favorable Leasehold Interests**—The Company values using the market approach.
- **Tradenames**—The Company uses the relief-from-royalty method, a variation of the income approach, to value trademarks and tradenames. The key assumptions for the model are forecasted net revenue, the royalty rate, the effective tax rate and the discount rate.
- **Customer Relationships and Customer Contracts**—The Company uses the multi-period excess earnings method to value customer relationships and customer contracts. The key assumptions for the model are forecasted net revenue, Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"), the estimated allocation of earnings between different classes of assets, the attrition rate, the effective tax rate and the discount rate.

Derivatives and Hedging—The Company does not engage in speculative transactions for trading purposes. The Company uses derivative financial instruments in the normal course of business to manage its exposure to interest rate changes under its debt agreements, which bear interest at variable rates, and to manage its exposure to foreign currency exchange rates.

The Company records derivative instruments as either assets or liabilities in the consolidated balance sheet at their fair value. The Company has designated the interest rate swap derivative instruments as effective cash flow hedges, and changes in the fair value of these derivative instruments are recorded in accumulated other comprehensive loss on the consolidated balance sheet. See Note 16, Financial Instruments and Risk Management, for additional information about these contracts.

Foreign Currency Translation—For the Company’s foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect on the balance sheet date while income and expenses are translated at the average exchange rates prevailing during the period.

Foreign currency gains and losses resulting from transactions, and the translation of consolidated financial statements are recorded in the Company’s consolidated financial statements based upon the provisions of ASC 830, *Foreign Currency Matters*. The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of accumulated other comprehensive (loss) income. The effects of currency exchange rate changes on intercompany transactions that are denominated in a currency other than an entity’s functional currency are charged or credited to earnings through other expense or other income for the period presented.

Revenue Recognition Policy (ASC 606)—Revenue is recognized when control of promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. This is achieved by applying the following five-step model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as performance obligations are satisfied

The Company’s revenue is derived principally from the following services:

- *Remote Production Services*—These services provide the Company’s clients with a mobile control room to facilitate the capture and creation of live content, including a mobile unit or fly pack equipped with the Company’s assets (e.g., cameras and related audio and video equipment) together with a NEP Group broadcast engineering team.
- *Studio Control Room Production Services*—These services include the supply and operation of studios and/or control rooms together with a NEP Group broadcast engineering team that support live and near-live format television programming for entertainment clients.
- *Video Display Services*—These services provide the Company’s clients with large-scale, modular, LED video screens and related capabilities together with a NEP Group technical display engineering team.
- *Other Media Solutions Services*—The Other Media Solutions Services are comprised of several service offerings which provide the Company’s clients with media supply chain management solutions, including media asset management, automated video content delivery and IT monitoring tools.

The Company enters into contracts to provide the above services to their customers for a specified event over a specified period of time, generally one month or less. Each event and each period of service is distinct in the context of the contract and are accounted for as a separate performance obligation. Revenues for these services are recognized over time (output method) as the services are performed and control of the services are transferred to the customer.

The Company typically incurs certain event-related direct costs for additional services required by the event that are classified as variable consideration. This variable consideration is typically passed through to the client as additional revenue with no mark-up or margin earned by the Company. To determine the transaction price, the Company estimates the variable consideration using the expected value method, based on the contract terms and the known performance during the service period. When determining if variable consideration should be constrained, the Company considers whether factors outside of its control could result in a significant reversal of revenue. In making these assessments, the Company considers the likelihood and magnitude of a potential reversal of revenue. The Company's service periods are typically of a short duration and the estimates are reassessed during each reporting period.

Revenue is recorded net of taxes collected or accrued. Sales, value-added and goods and services taxes are recorded as current liabilities until remitted to the relevant government authority.

Deferred Revenue—Deferred revenue consists of payments received in advance of revenue recognition from the Company's contracts with customers. The timing of revenue recognition may differ from the timing of payments from customers. The time between invoicing and when payment is due is not significant.

Income Taxes—The Company utilizes the asset and liability method of accounting for income taxes, which requires the recognition of deferred tax assets and liabilities for expected future consequences of temporary differences between the financial reporting and income tax basis of assets and liabilities using enacted tax rates. The Company's management makes estimates, assumptions and judgments to determine the Company's provision for income taxes and also for deferred tax assets and liabilities, and any valuation allowances recorded against the Company's deferred tax assets. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance.

The calculation of the Company's current provision for income taxes involves the use of estimates, assumptions and judgments while taking into account current tax laws, interpretation of current tax laws and possible outcomes of future tax audits. The effects of future changes in tax laws or rates are not anticipated. Although the Company believes its estimates, assumptions and judgments to be reasonable, any changes in tax law or its interpretation and the resolutions of potential tax audits could impact the amounts provided for income taxes in the Company's consolidated financial statements.

The calculation of the Company's deferred tax balance involves the use of estimates, assumptions and judgments while taking into account estimates of the amounts and type of future taxable income and tax laws. Actual future operating results and the underlying amount and type of income could differ materially from the Company's estimates, assumptions and judgments thereby impacting the Company's consolidated financial position and results of operations.

The Company evaluates uncertain tax positions using the recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in the Company's income tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company includes interest and penalties related to unrecognized tax benefits within income tax expense in the accompanying consolidated statements of operations and comprehensive loss. The Company has not incurred any material interest or penalties related to unrecognized tax benefits in any of the periods presented.

Other Comprehensive Loss—Comprehensive loss is defined as net income and all other nonowner changes in shareholders' equity. Other comprehensive loss results from items deferred from recognition into the consolidated statements of operations and comprehensive loss. The Company follows the provisions of ASC 220, *Comprehensive Income*, for the reporting and display of comprehensive loss and its components. The Company's accumulated other comprehensive loss consists of foreign currency translation adjustments and the unrealized gain on interest rate swap contracts, net of tax. Accumulated other comprehensive loss ("AOCI") is separately presented on the Company's consolidated balance sheets as part of shareholders' equity.

Equity-Based Compensation—The Company accounts for equity-based compensation using the fair value method as set forth in the ASC 718, *Compensation—Stock Compensation*, which requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. This method requires companies to estimate the fair value of stock-based compensation on the date of grant using an option pricing model. The Company estimates the fair value of each equity-based payment award on the date of grant using the Black-Scholes pricing model.

The Black-Scholes model determines the fair value of equity-based payment awards based on the fair value of the underlying common stock on the date of grant and requires the use of estimates and assumptions, which are discussed in Note 13.

Common Stock Valuation—Determining the fair value of the Company's common stock requires complex and subjective judgment and estimates. There is inherent uncertainty in making these judgments and estimates. The absence of an active market for the Company's common stock required the Company's Board of Directors to estimate the fair value of the common stock for purpose of setting the exercise price of the options and estimating the fair value of the common stock at the time options were granted based on factors such as valuations of comparable companies, the status of the Company's development and sales efforts, revenue growth, and additional objective and subjective factors relating to the Company's business. The Company performed its analysis in accordance with applicable elements of the practice aid issued by the American Institute of Certified Public Accountants' ("AICPA") *Practice Guide, Valuation of Privately Held Company Equity Securities Issues as Compensation*; with this guidance, the Company's Board of Directors exercised reasonable judgment and considered numerous and subjective factors to determine the best estimate of fair value of the Company's common stock, including the following:

Company Specific Factors

- Actual and forecasted operating and financial performance based on management's estimate
- Historical acquisition valuations of the Company
- The development and maintenance of client relationships
- Client and industry recognition
- The hiring and retention of key personnel
- The historical lack of a public market for the Company's common stock

General Economic Factors

- Industry trends and competitive environment
- Trends in client and the at-large public spending, including client and public confidence
- Overall economic indicators
- The general economic outlook

The common stock valuations have historically leveraged the historical prices paid to acquire the Company's common stock in change of ownership transactions, which were representative of fair value. The purchase price is allocated to those shares outstanding at the time of purchase to calculate the fair value of each share of common stock. This approach was applied consistently from the December 23, 2012, change in ownership forward as well as for the NEP Group, Inc. acquisition. The Company's valuation of common stock has historically been estimated utilizing a market approach. When coincident with the grant date of options, the Company has utilized the valuation ascribed in private equity change in ownership transactions.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Recent Accounting Pronouncements

Accounting Standards Issued Not Yet Adopted—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The current guidance requires the allowance for doubtful accounts to be estimated based on an incurred loss model, which considers past and current conditions. ASU 2016-13 requires companies to use an expected loss model that also considers reasonable and supportable forecasts of future conditions. In November 2019, the FASB issued ASU 2019-10 which amends Topic 326 to become effective for annual periods beginning after December 15, 2022, with early adoption permitted. The standard requires a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The company is currently evaluating the potential impact that this guidance may have on the consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"), which provides temporary optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in ASU 2020-04 apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848* ("ASU 2022-06"), which defers the sunset date of Topic 848 to December 31, 2024. ASU 2020-04 is currently effective and upon adoption may be applied prospectively to contract modifications made on or before December 31, 2024. The Company is currently evaluating the impact that this guidance may have on the consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"), which requires entities (acquirers) to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC Topic 606. ASU 2021-08 will be effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022 with early adoption permitted. This guidance is effective prospectively and impact of the adoption of this guidance will depend on future transactions.

Adoption of New Accounting Standards—In February 2016, the FASB issued ASU 2016-02, "Leases" Topic 842, which amends the guidance in former ASC Topic 840, Leases. The new standard increases transparency and comparability most significantly by requiring the recognition by lessees of right-of-use ("ROU") assets and lease liabilities on the balance sheet for all leases longer than 12 months. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For lessees, leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. In connection with such adoption, the Company recognized a cumulative-effect adjustment as of the January 1, 2022 adoption date by recording \$311.6 million of operating lease obligations on its consolidated balance sheet, with a corresponding ROU asset of \$306.7 million based on the present value of the remaining minimum rental payments for existing operating leases as of such date which included the derecognition of the Company's deferred and prepaid rent balances and lease incentive liabilities of \$4.9 million. The adoption did not have an impact on the Company's accounting for existing finance leases.

In November 2021, the FASB issued ASU No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* ("ASU 2021-10"), which requires entities to provide annual disclosures about transactions with a government that are accounted for by applying a grant or combination accounting model by analogy. ASU 2021-10 will be effective for fiscal years beginning after December 15, 2021 with early adoption permitted. The adoption of this guidance did not have a material impact on its consolidated results of operations, cash flows, financial position, or disclosures.

2. ACQUISITIONS

During the year ended December 31, 2022, the Company completed several business combinations. None of these business combinations individually or in the aggregate were considered material to the Company's financial statements.

Bright—On November 10, 2021, the Company acquired the Bright Group of companies ("Bright"). Bright is a live event service provider of audio-visual services that is headquartered in Vantaa, Finland with operations in Norway and Sweden. This acquisition expands the Company's Live Events resources throughout the Nordic region. The aggregate purchase price for Bright was approximately 314.1 million SEK, or \$36.7 million, in cash consideration, which was funded by cash on hand and borrowings under the Company's revolving credit facility. Transaction costs of approximately \$0.7 million were incurred related to the acquisition and were included in selling, general, and administrative ("SG&A") expenses for the year ended December 31, 2021.

The purchase price has been allocated to the assets and liabilities acquired based upon their respective fair values. Property, plant and equipment were valued at fair value by estimating the replacement cost of such assets. Acquired intangibles related to customer relationships were valued using a discounted cash flow analysis under the multi-period excess earnings method, and these intangibles are subject to impairment testing consistent with the Company's policy. Significant assumptions were utilized in the

valuation of the intangible assets acquired and were based on company-specific information and projections, which were not observable in the market and thus considered level 3 measurements as defined by U.S. GAAP. The excess of the aggregate purchase price over the fair values of the net assets acquired was recognized as goodwill of \$23.6 million. None of the goodwill is expected to be deducted for tax purposes.

Prysm, Lux and Halon—On August 1, 2021, the Company acquired a group of companies including Prysm Collective, LLC (“Prysm”), Lux Machina Consulting, Inc. (Lux) and Halon Entertainment LLC (Halon). Prysm, Lux and Halon are industry-leading companies in real-time virtual production and in-camera visual special effects (ICVFX) that are headquartered in Los Angeles, California. This acquisition expands the Company’s service offerings into virtual production and in-camera visual special effects (ICVFX). The aggregate purchase price for the combined group of companies was approximately \$50.0 million, including cash of \$15.3 million and stock consideration of \$34.7 million, which was funded by cash on hand and borrowings under the Company’s revolving credit facility. Transaction costs of approximately \$1.2 million were incurred related to the acquisition and were included in selling, general, and administrative (“SG&A”) expenses for the year ended December 31, 2021.

The purchase price has been allocated to the assets and liabilities acquired based upon their respective fair values. Property, plant and equipment were valued at fair value by estimating the replacement cost of such assets. Acquired intangibles related to customer relationships were valued using a discounted cash flow analysis under the multi-period excess earnings method, and these intangibles are subject to impairment testing consistent with the Company’s policy. Significant assumptions were utilized in the valuation of the intangible assets acquired and were based on company-specific information and projections, which were not observable in the market and thus considered level 3 measurements as defined by U.S. GAAP. The excess of the aggregate purchase price over the fair values of the net assets acquired was recognized as goodwill of \$29.9 million. None of the goodwill is expected to be deducted for tax purposes.

VISTA—On March 1, 2021, the Company acquired the VISTA Satellite Communications, Inc. (VISTA). VISTA is specialized in providing centralized production services and is headquartered in Dania Beach, Florida. This acquisition expands the Company’s service offerings in centralized production and related remote production workflows. The aggregate purchase price for VISTA was approximately \$18.8 million, including cash of \$15.1 million and stock consideration of \$3.7 million, which was funded by cash on hand and borrowings under the Company’s revolving credit facility. Transaction costs of approximately \$0.3 million were incurred related to the acquisition and were included in selling, general, and administrative (“SG&A”) expenses for the year ended December 31, 2021.

The purchase price has been allocated to the assets and liabilities acquired based upon their respective fair values. Property, plant and equipment were valued at fair value by estimating the replacement cost of such assets. Acquired intangibles related to customer contracts and customer relationships were valued using a discounted cash flow analysis under the multi-period excess earnings method, and these intangibles are subject to impairment testing consistent with the Company’s policy. Significant assumptions were utilized in the valuation of the intangible assets acquired and were based on company-specific information and projections, which were not observable in the market and thus considered level 3 measurements as defined by U.S. GAAP. The excess of the aggregate purchase price over the fair values of the net assets acquired was recognized as goodwill of \$13.8 million. None of the goodwill is expected to be deducted for tax purposes.

For the aforementioned acquisitions by the Company, the following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the acquisition:

	Bright November 10, 2021	Prysm, Lux & Halon August 1, 2021	VISTA March 1, 2021
Assets:			
Current assets	\$ 14,909	\$ 8,893	\$ 598
Property, plant, and equipment	10,413	4,779	3,317
Intangible assets	3,262	24,800	4,900
Goodwill	23,555	29,919	13,766
Other long-term assets	<u>1,370</u>	<u>38</u>	<u>-</u>
Total assets acquired	<u>53,509</u>	<u>68,429</u>	<u>22,581</u>
Liabilities:			
Accounts payable	5,784	1,527	697
Deferred revenue	1,221	8,958	334
Other liabilities	<u>9,759</u>	<u>7,939</u>	<u>2,720</u>
Total liabilities assumed	<u>16,764</u>	<u>18,424</u>	<u>3,751</u>
Net assets acquired	<u>\$ 36,745</u>	<u>\$ 50,005</u>	<u>\$ 18,830</u>

Other Acquisitions—During the year ended December 31, 2021, the Company completed two acquisitions to expand the Company’s broadcast services and audio-visual service offerings internationally. The acquisitions were not individually significant. The combined purchase price of the other acquisitions completed during 2021 were approximately \$4.4 million in cash and stock issued. The other acquisitions completed during 2021 are further described in the table below:

Date of Closing	Company	Details
November 30, 2021	Loop Light	Expansion of audio visual services internationally
May 1, 2021	Stoneroos	Expansion of broadcast service offerings internationally

The operating results for each acquisition have been included in the Company’s financials since each respective date of acquisition. The effects of the business combinations were not material to the Company’s consolidated results of operations individually or in the aggregate.

3. ACCOUNTS RECEIVABLE—NET

Accounts receivable consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Billed receivables	\$ 200,084	\$ 178,289
Unbilled receivables	59,965	49,535
Allowance for doubtful accounts	<u>(4,009)</u>	<u>(4,171)</u>
Accounts receivable—net	<u>\$ 256,040</u>	<u>\$ 223,653</u>

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Prepaid insurance	\$ 3,928	\$ 3,868
Prepaid taxes	8,350	6,340
Prepaid deposits	11,913	31,603
Prepaid maintenance agreements	7,839	5,983
Prepaid direct cost	12,928	12,777
Derivative assets	22,386	-
Prepaid other	<u>14,194</u>	<u>16,136</u>
	<u>\$ 81,538</u>	<u>\$ 76,707</u>

5. PROPERTY, PLANT, AND EQUIPMENT—NET

Property, plant, and equipment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Broadcast and production equipment	\$ 1,502,668	\$ 1,271,766
Furniture and fixtures	15,483	15,963
Building and leasehold improvements	71,166	71,633
Computer equipment	30,143	26,337
Vehicles	51,833	48,236
Construction in progress	<u>63,850</u>	<u>50,088</u>
	1,735,143	1,484,023
Accumulated depreciation	<u>(969,636)</u>	<u>(782,523)</u>
Total property, plant, and equipment—net	<u>\$ 765,507</u>	<u>\$ 701,500</u>

The Company's depreciation expense was \$247.4 million and \$256.8 million, for the years ended December 31, 2022 and 2021, respectively.

6. INTANGIBLE ASSETS—NET

Intangible assets relate primarily to those customer relationships obtained through acquisitions (see Note 1). The intangible asset amortization is recorded on a straight-line basis over the estimated useful life of each relationship with a weighted-average useful life remaining of 122 months and 134 months as of December 31, 2022 and 2021, respectively.

The following table presents the gross carrying amount, accumulated amortization, and resulting net intangibles as of December 31, 2022 and 2021:

	2022	2021
Gross carrying amount	\$ 416,583	\$ 416,237
Accumulated amortization	(117,009)	(88,048)
Foreign currency impact	<u>(11,891)</u>	<u>667</u>
Net intangibles	<u>\$ 287,683</u>	<u>\$ 328,856</u>
Indefinite-lived intangible assets—tradenames	<u>\$ 41,000</u>	<u>\$ 41,000</u>

The Company incurred intangible asset amortization expense of \$28.9 million and \$29.3 million, for the years ended December 31, 2022 and 2021, respectively. The estimated aggregate intangible asset amortization for the next five years and thereafter is expected to be as follows:

2023	\$ 28,591
2024	28,537
2025	28,481
2026	28,481
2027	28,481
Thereafter	<u>145,112</u>
	<u>\$ 287,683</u>

7. GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired (see Note 1). Goodwill is not amortized but is reviewed annually during the fourth quarter for impairment (see Note 1). The following table presents the Company's roll forward of goodwill for the years ended December 31, 2022 and 2021:

Balance—December 31, 2020	\$ 1,597,226
Acquisitions of businesses	71,225
Foreign currency adjustment	<u>(48,745)</u>
Balance—December 31, 2021	1,619,706
Acquisitions of businesses	1,254
Adjustments ⁽¹⁾	599
Foreign currency adjustment	<u>(66,155)</u>
Balance—December 31, 2022	<u>\$ 1,555,404</u>

⁽¹⁾ In accordance with the accounting for business combinations, the Company recorded adjustments to goodwill for the effect of the changes in the provisional fair values of the assets required and liabilities assumed during the measurement period (up to one year from the acquisition date) as the Company obtained new information about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date.

8. ACCRUED EXPENSES

Accrued expenses consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Accrued direct costs	\$ 52,773	\$ 47,823
Accrued compensation	60,585	57,959
Accrued transaction costs	-	2,508
Accrued professional services fees	3,241	-
Payroll and other taxes	29,038	31,538
Accrued employee benefit costs	8,385	6,027
Derivatives liability	-	26,317
Accrued Capex	6,211	540
Other accruals	<u>13,041</u>	<u>14,467</u>
Total accrued expenses	<u>\$ 173,274</u>	<u>\$ 187,179</u>

9. LEASES

The Company leases its office facilities, office equipment, broadcast equipment and vehicles under noncancelable lease agreements which expire at various dates through 2080. Some of these lease agreements include an option to renew at the end of the term. The Company also leases certain office facilities on a month-to-month basis. In some instances, the Company is also required to pay its pro rata share of real estate taxes and utility costs in connection with the premises. Some of the leases contain fixed annual increases of minimum rent.

The Company's leases frequently allow for lease payments that could vary based on factors such as inflation and the incurrence of contractual charges such as those for common area maintenance or utilities.

Renewal and/or early termination options are common in the lease arrangements, particularly with respect to real estate leases. The Company's right-of-use assets and lease liabilities generally include periods covered by renewal options and exclude periods covered by early termination options (based on the conclusion that it is reasonably certain that the Company will exercise such renewal options and not exercise such early termination options).

The Company is also party to certain sublease arrangements related to real estate leases, where the Company acts as the lessee and intermediate lessor.

The following table presents information about the Company's right-of-use assets and lease liabilities as of December 31, 2022 (in thousands):

		December 31, 2022
Consolidated Balance Sheet Line Item		
Right-of use (ROU) asset:		
Operating lease ROU assets	Operating lease right-of-use assets	\$ 258,951
Finance lease ROU assets	Property, plant, and equipment—net	<u>84,176</u>
Total ROU assets		<u>\$ 343,127</u>
Operating lease liabilities:		
Current operating lease liabilities	Current portion of operating lease liabilities	\$ 52,927
Noncurrent operating lease liabilities	Long-term operating lease liabilities	<u>213,100</u>
Total operating lease liabilities		<u>\$ 266,027</u>
Finance lease liabilities:		
Current finance lease liabilities	Current portion of finance lease liabilities	\$ 32,642
Noncurrent finance lease liabilities	Finance lease liabilities	<u>40,618</u>
Total finance lease liabilities		<u>\$ 73,260</u>

The following table presents information about lease costs and expenses and sublease income for the year ended December 31, 2022 (in thousands):

	Year Ended December 31, 2022
Operating lease costs	\$ 71,775
Finance lease costs:	
Amortization of ROU assets	\$ 17,674
Imputed interest on ROU assets	3,710
Other lease costs and income:	
Short-term lease costs	\$ 1,549
Variable lease costs ⁽¹⁾	7,831

⁽¹⁾ Amounts represent variable costs incurred that were not included in the initial measurement of the lease liability such as common area maintenance and utilities costs associated with leased real estate.

The following table provides the undiscounted amount of future cash flows included in the Company's lease liabilities as of December 31, 2022, for each of the five years subsequent to December 31, 2022, and thereafter, as well as a reconciliation of such undiscounted cash flows to the Company's lease liabilities as of December 31, 2022 (in thousands):

	Operating Leases	Finance Leases
2023	\$ 64,330	\$ 35,760
2024	50,476	24,032
2025	40,620	13,425
2026	32,824	2,533
2027	25,440	1,553
Thereafter	<u>154,332</u>	<u>656</u>
Total future lease payments	368,022	77,959
Less: amount representing interest	<u>(101,995)</u>	<u>(4,699)</u>
Present value of future lease payments	<u>\$ 266,027</u>	<u>\$ 73,260</u>

The Company's future minimum lease commitments for operating leases as of December 31, 2021, as determined in accordance with ASC 840, were as follows (in thousands):

	Operating Leases	Capital Leases
2022	\$ 54,709	\$ 32,136
2023	45,840	18,324
2024	36,732	4,934
2025	29,960	3,624
2026	24,433	1,316
Thereafter	<u>200,750</u>	<u>-</u>
Total future lease payments ⁽²⁾	<u>\$ 392,424</u>	60,334
Less: amount representing interest		<u>(3,488)</u>
Present value of capital lease obligations		56,846
Less: current maturities of capital lease obligations		<u>(29,998)</u>
Capital lease obligation, long-term		<u>\$ 26,848</u>

The following table provides the weighted average remaining lease terms and weighted average discount rates for the Company's leases as of December 31, 2022:

Weighted average remaining lease term, weighted based on lease liability balances:	
Operating leases	10.7 years
Finance leases	2.5 years
Weighted average discount rate, weighted based on remaining balance of lease payments:	
Operating leases	5.6 %
Finance leases	5.4

The following table provides certain cash flows and supplemental noncash information related to our lease liabilities for the year ended December 31, 2022 (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash payments for operating leases	\$ 71,105
Financing cash payments for finance leases	34,983

Sale-Leaseback Arrangements

During the year ended December 31, 2022, the Company entered into five failed sale-leaseback arrangements under ASC 842 for the purpose of financing capital expenditures. The sales leaseback transactions were as follows:

Sale Leaseback Transactions Start Date	Cash Received	Term
March 2022	\$ 16,000	36 months
June 2022	10,892	36 months
August 2022	6,747	36 months
October 2022 (Arrangement 1)	4,187	36 months
October 2022 (Arrangement 2)	4,126	36 months
	<u>\$ 41,952</u>	
Proceeds from sale leaseback		

During the year ended December 31, 2021, the Company entered into one sale-leaseback arrangement under ASC 840 for the purpose of financing capital expenditures. This sales leaseback transaction was as follows:

Sale Leaseback Transactions Start Date	Cash Received	Term
August 2021	<u>\$ 26,500</u>	24 months
Proceeds from sale leaseback	<u>\$ 26,500</u>	

10. LONG-TERM DEBT

Long-term debt consisted of the following as of December 31, 2022 and 2021:

	2022	2021
First lien term loan—USD	\$ 1,414,710	\$ 1,429,355
First lien term loan—Euro	521,477	558,425
Second lien term loan	240,000	240,000
First lien term loan—Outside Broadcast	1,338	1,606
Revolving line of credit	186,000	16,000
Revolving line of credit—NEP Australia	19,096	20,328
Revolving line of credit—NEP New Zealand	11,112	13,680
First lien term loan—NEP Sweden	2,333	6
	<u>2,396,066</u>	<u>2,279,400</u>
Less current portion	(28,306)	(42,634)
Less debt issuance costs	<u>(25,406)</u>	<u>(34,005)</u>
Long-term portion	<u>\$ 2,342,354</u>	<u>\$ 2,202,761</u>

The Company's Credit Arrangements

On October 19, 2018, the Company entered into multiple credit agreements with a financial institution and other lenders. The credit agreements were entered into as a means to finance a portion of the NEP Group, Inc. Acquisition (see Note 1) and were comprised of a \$250.0 million revolving credit facility, a \$1,130.0 million USD first lien term loan, a \$240.0 million USD second lien term loan, and a 397.1 million EUR, or approximately \$450.3 million USD, Euro first lien term loan (the "Credit Agreements").

On August 13, 2019, the Company amended its Euro first lien term loan, increasing it by 110.0 million EUR, or approximately \$122.3 million. No other terms and conditions were modified.

On June 2, 2020, the Company amended its USD first lien term loan and entered into a New Term Facility (the "2020 Dollar Term Facility") in an aggregate amount of \$100 million and a New Term Commitment (the "Delayed Draw Term Loans") in an aggregate amount of \$25 million. No other terms and conditions were modified.

On September 9, 2020, the Company amended its USD first lien term loan, modifying its financial covenant. This modification included a waiver of the minimum coverage ratio covenant requirements and included the addition of a minimum liquidity covenant through December 30, 2021. As of September 30, 2021, the Company exercised the Covenant Reset Option and was in compliance with the minimum leverage coverage ratio. As a result, the waiver of the minimum coverage ratio covenant and the minimum liquidity covenant requirement were in effect from September 9, 2020 through August 31, 2021.

On February 26, 2021, the Company elected to exercise its right to borrow \$25 million on the Delayed Draw Term Loans under the 2020 Dollar Term Facility.

On November 23, 2021, the Company amended its USD first lien term loan and entered into a New Term Facility (the "2021 Dollar Term Facility") in an aggregate amount of \$210 million. No other terms and conditions were modified.

On October 7, 2022, the Company amended its USD first lien revolving credit facility to extend the maturity date. Under this amendment, the maturity date of the revolving credit facility has been extended to February 28, 2025. If, by such date, all 2020 Dollar Term Loans and Delayed Draw Term Loans have been repaid in full, or amended, restated, modified, extended, refinanced, replaced or repaid in full, then the maturity date will be extended to July 18, 2025. The aforementioned extended maturity date applies to \$245.0 million of the \$250.0 million of revolving credit facility limit. The remaining \$5.0 million of revolving credit facility not included in the extended maturity date will mature on October 19, 2023. In addition to the extension of the maturity date, the revolving credit facility's LIBOR rate loan borrowings were converted to SOFR rate loan borrowings. No other terms and conditions were modified.

The USD first lien term loan is payable quarterly in 27 consecutive installments of approximately \$2.8 million, beginning on March 31, 2019, through September 30, 2025 with a final payment of \$1,054 million to be made on October 20, 2025. The 2020 Dollar Term Facility under the USD first lien term loan was payable quarterly in 19 consecutive installments of approximately \$0.3 million, beginning on September 30, 2020, through March 31, 2025 with a final payment of \$95.3 million on June 2, 2025. As a result of the Delay Draw Term Loan borrowing in February 2021, the 2020 Dollar Term Facility under the USD first lien term loan is payable quarterly in 17 consecutive installments of approximately \$0.3 million, beginning on September 30, 2020, through March 31, 2025 with a final payment of \$119.2 million on June 2, 2025. The 2021 Dollar Term Facility under the USD first lien term loan is payable quarterly in 15 consecutive installments of approximately \$0.5 million, beginning on March 31, 2022, through September 30, 2025 with a final payment of \$202.1 million on October 18, 2025. The USD second lien term loan is payable in full at maturity, October 19, 2026. The amended Euro first lien term loan is payable quarterly in 25 consecutive installments of approximately 1.3 million EUR or \$1.4 million beginning on September 30, 2019, through September 30, 2025 with a final payment of 473.4 million EUR, or approximately \$530.7 million, to be made on October 20, 2025.

The combined amount of outstanding borrowings under the revolving line of credit and the letters of credit may not exceed \$250.0 million. Of the \$250.0 maximum credit on the revolving credit line, the pro rata portion of the \$5.0 million outstanding revolving line of credit is payable in full at maturity on October 19, 2023. The remaining pro rata portion of \$245 million of the outstanding revolving line of credit that is outstanding will be payable in full in February 28, 2025. The total amounts available under the revolving line of credit at December 31, 2022 and 2021, were \$50.7 million and \$220.5 million, respectively. The total amount of outstanding letters of credit as of December 31, 2022 and 2021, were \$13.3 million and \$13.5 million, respectively.

Interest is charged on the USD first lien term loan, the 2020 Dollar Term Facility USD first lien term loan, the 2021 Dollar Term Facility USD first lien term loan and the second lien term loan at either (1) the lender's base rate, which is the greatest of (a) the federal funds effective rate plus 0.5%, (b) the prime lending rate, and (c) the adjusted London Interbank Offered Rate ("LIBO rate") determined on such date for a deposit in dollars with a maturity of one month plus 1% and (d) 1.00% per annum, plus an applicable margin or (2) the adjusted LIBO rate which is the greater of (a) the LIBO rate multiplied by the statutory reserve rate and (b) 0.0% for the USD first lien term loan, 1.0% of the incremental USD

first lien term loan and 0.0% for the USD second lien term loan, plus an applicable margin, at the Company's discretion. Interest is charged on the revolving credit facility in the same manner as above; however, the LIBO rate option is no longer available as this has been replaced with SOFR rate option as noted above in conjunction with the amendment executed October 7, 2022.

Interest on the revolving credit facility and the first lien term loans are payable quarterly for base rate loans and in one-, two-, three-, or six-month interest periods, at the Company's discretion, for LIBO rate-based loans and SOFR rate-based loans. As of December 31, 2022 and 2021, the USD first lien term loan and the second lien term loan balances were at the LIBO rate. As of December 31, 2022, the 2020 Dollar Term Facility and the 2021 Dollar Term Facility balances outstanding were at the LIBO rate option while the revolver balances outstanding were at the SOFR rate option and the base rate option. As of December 31, 2021, the 2020 Dollar Term Facility, the 2021 Dollar Term Facility and the revolver balances outstanding were at the LIBO rate option.

Interest rates for the Company's USD first lien term loan, the 2020 Dollar Term Facility, the 2021 Dollar Term Facility, the second lien term loan, and the revolving line of credit were at 7.63%, 12.63%, 8.38%, 11.38% and 7.73% - 9.50%, respectively, at December 31, 2022. Interest rates for the Company's USD first lien term loan, the 2020 Dollar Term Facility, the 2021 Dollar Term Facility, the second lien term loan, and the revolving line of credit were at 3.35%, 9.25%, 6.25%, 7.10% and 3.60%, respectively, at December 31, 2021.

Interest charged on the Euro first lien term loan is the greater of (a) the EURIBOR or (b) 0.00%, plus an applicable margin. Interest rates for the Company's Euro first lien term loan were 5.40% and 3.50% at December 31, 2022 and 2021, respectively.

The Credit Agreements are guaranteed on a senior basis by all of the Company's subsidiaries and are collateralized by substantially all of the assets of the Company and its subsidiaries. The Credit Agreements contain certain covenants that require the Company to maintain a minimum leverage coverage ratio. The credit agreements further limit declaration of dividends and additional indebtedness and contain restrictions on the transferring of assets and the transferring or encumbering of the Company's stock. The Company is currently in compliance with all financial covenants required under the Credit Agreements.

Borrowings under the Company's Credit Agreements are subject to mandatory prepayment terms in the event of a debt or equity issuance, a recovery event, asset disposition, or excess cash flows, as defined in the Credit Agreements.

Outside Broadcast Debt—In connection with the Company's acquisition of Outside Broadcast on April 29, 2015, the Company assumed Outside Broadcast's debt. As of December 31, 2022 and 2021, respectively, this debt balance is comprised of an outstanding loan with a third party financial institution.

Outside Broadcast's remaining outstanding loan balance as of December 31, 2022 and 2021 was approximately 1.3 million EUR, or \$1.3 million, and 1.4 million EUR, or \$1.6 million, respectively, and matures in November 2029. Principal and interest payments are payable quarterly. As of December 31, 2022, and 2021, the interest rate was 1.83%, respectively.

NEP Sweden Debt—In connection with the Company's asset purchase of Jupiter Technologies AB (Jupiter) on November 1, 2022, the Company assumed Jupiter's debt. As of December 31, 2022, this debt balance is comprised of two outstanding loans (Loan A and Loan B) with a third party legal entity.

NEP Sweden's remaining outstanding loan balance as of December 31, 2022 was approximately 24.3 million SEK, or \$2.3 million. Loan A matures on October 31, 2025 and Loan B matures on April 30, 2024. Principal and interest payments are payable monthly. As of December 31, 2022, the interest rate was 0.0%. The interest rate for Loan A and Loan B increases to 5.0% in calendar year 2024 and the interest rate for Loan A increases to 10.0% in calendar year 2025.

NEP Australia and New Zealand Debt—During 2015, NEP Australia entered into a credit agreement with a third-party financial institution. The credit agreement was comprised of two revolving credit facilities: 1) Facility A and 2) Facility B.

On January 31, 2019, these revolving credit facilities under this credit agreement were amended under a new three-year term. Facility A and Facility B were consolidated into a new Facility A with the aggregate balance of 28.0 million AUD or \$20.4 million at January 31, 2019. The multi-option Facility B was increased from 2.0 million AUD to 3.5 million AUD and a new overdraft facility was created (Facility C) for 2.0 million AUD and a new travel credit card facility was created (Facility D) for 1.5 million AUD. Facilities B and C are renewable annually.

In April 1, 2021, the credit agreement was amended to include two additional revolving credit facilities: 1) Facility E1 and 2) Facility E2 to facilitate borrowings in NZD. The maximum borrowing capacity under Facility E1 is 14 million NZD and Facility E2 is 6 million NZD.

On March 31, 2022, NEP Australia amended its credit agreement. The following changes were made as a result of this amendment: 1) the maturity date of this credit agreement was extended until March 31, 2025, 2) Facility B's limit was increased by 1.0 million AUD to 4.5 million AUD and 3) the margin pricing on this credit agreement borrowings were increased by 0.30%.

The same covenants apply to the credit agreement's Australian Facility A and B as well as the New Zealand Facility E1 and E2, which are a minimum leverage ratio and interest cover ratio. Additionally, a fixed charge coverage ratio covenant was added to the credit agreement as a result of the April 2021 amendment to the credit agreement. The Company is currently in compliance with the covenants contained in these agreements.

Generally, the interest payments are payable in one, two, three, or six-month interest periods, at the Company's discretion. These loans bear interest at the Australian Bank Bill Swap Reference Rate plus an applicable margin. As of December 31, 2022 and 2021, the interest rates in effect for Facility A were approximately 4.88% and 1.67%, respectively, and the interest rate in effect for Facility E1 and E2 was 3.55%.

At December 31, 2022, Facility A had a balance of \$28.0 million AUD or \$19.1 million and Facility C does not have an outstanding balance. At December 31, 2021, Facility A had a balance of 28.0 million AUD or \$20.3 million and Facility C does not have an outstanding balance. At December 31, 2022, Facility E1 had a balance of \$14.0 million NZD or \$8.9 million and Facility E2 had a balance of \$6.0 million NZD or \$3.8 million. At December 31, 2021, Facility E1 had a balance of 14.0 million NZD or \$9.6 million and Facility E2 had a balance of 6.0 million NZD or \$4.1 million. The total amount of outstanding letters of credit under Facility B as of December 31, 2022 and 2021, were \$3.0 million AUD, or \$2.0 million and 3.0 million AUD, or \$2.2 million, respectively.

Five-year maturities of long-term debt as of December 31, 2022 were as follows:

2023	\$ 28,306
2024	28,920
2025	2,098,036
2026	240,178
2027	178
Thereafter	<u>448</u>
	<u>\$ 2,396,066</u>

11. INCOME TAXES

The Company files income tax returns in the US federal jurisdiction and various state and foreign jurisdictions. The Company is responsible for paying the taxes relating to such items, including any subsequent adjustments resulting from the redetermination of such tax liabilities by the applicable taxing authorities.

Loss before income taxes as of December 31, 2022 and 2021, were as follows:

	2022	2021
United States	\$ (114,884)	\$ (93,977)
International	<u>(41,276)</u>	<u>(59,748)</u>
Loss before income taxes	<u>\$ (156,160)</u>	<u>\$ (153,725)</u>

Income tax benefit (expense) as of December 31, 2022 and 2021, consisted of the following:

	2022	2021
Current:		
Federal	\$ (45)	\$ 269
State	(478)	(152)
Foreign	<u>(6,515)</u>	<u>(2,508)</u>
Total	<u>(7,038)</u>	<u>(2,391)</u>
Deferred:		
Federal	(2,289)	9,440
State	5,404	4,380
Foreign	<u>2,341</u>	<u>(1,680)</u>
Total	<u>5,456</u>	<u>12,140</u>
Income tax benefit (expense)	<u>\$ (1,582)</u>	<u>\$ 9,749</u>

A reconciliation of US income tax computed at the statutory rate to the effective tax rate is as follows:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Tax Benefit (Expense)	Rate	Tax Benefit (Expense)	Rate
US federal statutory rate	\$ 32,746	21.00 %	\$ 32,282	21.00 %
Tax rate differential on foreign income	2,006	1.29	4,592	2.99
State income tax—less applicable federal income tax	3,704	2.38	2,671	1.74
Permanently disallowed deductions	308	0.20	1,706	1.11
Impact of Restructuring	(4,182)	(2.68)	-	0.00
Adjustments to prior year taxes	(3,101)	(1.99)	-	0.00
Stock Compensation	(1,955)	(1.25)	(2,204)	(1.43)
Foreign Currency Gain	(327)	(0.21)	-	-
US tax of foreign sourced income	2,194	1.41	393	0.26
Valuation allowance	(33,007)	(21.17)	(30,676)	(19.96)
Other	32	0.01	985	0.64
Effective tax rate	<u>\$ (1,582)</u>	<u>(1.01)%</u>	<u>\$ 9,749</u>	<u>6.30 %</u>

CARES ACT—On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law. Intended to provide economic relief to those impacted by the COVID-19 pandemic, the CARES Act includes provisions, among others, addressing the carryback of net operating loss carryforwards (“NOLs”) for specific periods, refunds of alternative minimum tax credits, temporary modifications to the limitations placed on the tax deductibility of net interest expenses, and technical amendments for qualified improvement property (“QIP”). Additionally, the CARES Act, in efforts to enhance business’ liquidity, provides for refundable employee retention tax credits and the deferral of the employer-paid portion of social security taxes.

The CARES Act allows employers to defer payment of a portion of payroll taxes otherwise due on wages paid between the enactment date and December 31, 2020 and remit the deferred payroll taxes in equal amounts on December 31, 2021 and 2022. Under this provision of the CARES Act, the Company has recorded the tax impact of \$0.8 million as a deferred tax asset, which reversed in 2021 and 2022. The Company implemented applicable benefits of the CARES Act, such as deferring employer payroll taxes, employee retention credits and modifications to the net interest deduction limitation.

The components of net deferred tax assets and liabilities were as follows as of December 31, 2022 and 2021:

	2022	2021
Deferred tax assets:		
Accrued expenses	\$ 5,561	\$ 5,559
Deferred rent	861	724
Compensation accruals	5,445	5,872
Stock options	1,238	867
Transaction costs	33	37
Unrealized loss	10,593	1,824
Disallowed interest expense	71,928	43,273
Right of Use Lease Liability	65,572	-
Interest rate swap	-	10,941
Other	1,972	1,642
Net operating losses:		
Federal	98,188	98,610
State	17,163	18,118
Foreign	44,794	50,928
	<u>323,348</u>	<u>238,395</u>
Valuation allowance	<u>(111,241)</u>	<u>(99,654)</u>
Net deferred tax assets	<u>212,107</u>	<u>138,741</u>
Deferred tax liabilities:		
Property, plant, and equipment	(60,947)	(57,402)
Intangible assets	(85,370)	(92,719)
Right of Use Lease Asset	(65,366)	-
Interest rate swap	(7,016)	-
	<u>(218,699)</u>	<u>(150,121)</u>
Net deferred tax liabilities	<u>\$ (6,592)</u>	<u>\$ (11,380)</u>

At December 31, 2022, the Company has federal, state, and foreign net operating loss carryforwards in the amount of \$467.6 million, \$277.0 million, and \$183.1 million, respectively, which are set to expire in various periods from 2022 through 2042. At December 31, 2021, the Company has federal, state, and foreign net operating loss carryforwards in the amount of \$455.4 million, \$279.5 million, and \$209.5 million, respectively, which are set to expire in various periods from 2022 through 2041.

Deferred taxes arise due to temporary differences in the basis of assets and liabilities and from net operating losses and credit carryforwards. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's consolidated statements of operations and comprehensive income (loss) become deductible under applicable income tax laws, or loss and credit carryforwards are utilized. Accordingly, realization of deferred tax assets is dependent on future taxable income against which these deductions, losses, and credits can be utilized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

As of December 31, 2022 and 2021, the Company maintained a valuation allowance of \$53.4 million and \$43.0 million, respectively, on US federal and state net deferred tax assets and \$57.8 million and \$56.7 million, respectively, on non-US deferred tax assets. During 2022, the Company increased the US valuation allowance by \$10.4 million in accordance with the expected reversal of deferred tax assets and liabilities. The Company maintains a valuation allowance where it has determined it is more-likely-than-not that the benefit of certain deferred tax assets will not be realized. The entire amount of the US balance of \$53.4 million relates to U.S. federal and state net operating losses that the Company does not believe it will generate sufficient taxable income to utilize. The non-US valuation allowances are primarily in Australia, Ireland, Sweden, the United Kingdom, and the Netherlands and are related to a history of pre-tax losses.

The Company does not anticipate it will dispose of its foreign subsidiaries in the foreseeable future and therefore has not recorded deferred taxes on the difference between the financial reporting and tax basis of its investments. The Company had an overall accumulated deficit in its foreign subsidiaries as of December 31, 2017 and therefore no transition tax was incurred under the Tax Act. Certain of the Company's foreign subsidiaries with accumulated earnings that were deemed remitted under the Tax Act were not significant and are considered indefinitely reinvested. Upon actual cash distribution of these earnings, the Company may be subject to US taxation on currency gains or losses that occur between the date the earnings were deemed remitted and the date cash is distributed in the future, state income taxes and withholding taxes where applicable. We estimate that we will not incur significant additional taxes on those potential remittances.

The following is a reconciliation of the gross amounts of unrecognized income tax benefits as of December 31, 2022 and 2021:

	2022	2021
Balance—January 1	\$ 3,336	\$ 3,067
Gross increases for tax positions of prior years	-	124
Gross increases for tax positions of current year	143	538
Lapse of statute of limitations	<u>(97)</u>	<u>(393)</u>
Balance—December 31	<u>\$ 3,382</u>	<u>\$ 3,336</u>

As of December 31, 2022 approximately \$2.8 million of the \$3.4 million and as of December 31, 2021 approximately \$2.7 million of the \$3.3 million, respectively, of unrecognized tax benefits would reduce the Company's effective tax rate if recognized.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. In 2022, the Company continued to accrue an insignificant amount of interest expense in income tax expense. In 2022 and 2021, approximately \$0.1 million and \$0.1 million were accrued for payment of interest and penalties.

During 2022, the Company has not identified new uncertain tax positions related to the acquisitions which occurred during the year. During 2021, the Company identified new uncertain tax positions related to the acquisition of the Bright Group and recorded an uncertain tax position in the amount of \$0.5 million through purchase accounting.

The statute of limitations for the Company's federal and state income tax returns is generally three years. However, to the extent there are federal and state net operating losses being carried forward from prior years, those tax years remain open under statute until the net operating loss has been utilized, upon which time the three-year statute begins. As such, the Company's federal and state tax returns that remain subject to examination would be primarily from 2005 and thereafter. The Company's foreign and state tax returns that remain subject to examination would be primarily from 2016 and thereafter for Sweden, 2019 and thereafter for Finland, from 2018 and thereafter for Australia, from 2017 and thereafter for Germany, and from 2020 and thereafter for the United Kingdom.

12. SHAREHOLDERS' EQUITY

NEP Common Stock—Class A and Class B

In conjunction with the NEP Group, Inc. Acquisition, the Company was formed with the authority to issue 12,500,000 shares of Common Stock, with a par value of \$0.01 per share. Of the total Common Shares, 11,500,000 shares are designated "Class A Common Stock" and 1,000,000 shares are designated "Class B Common Stock."

As of December 31, 2022, 9,492,314 shares of Class A Common Stock were issued and outstanding. There were no shares of the Class B Common Stock issued as of December 31, 2022.

Voting Rights—Each holder of Class A Common Stock shall be entitled to one vote for each share thereof held of record by such holder on all matters on which stockholders generally are entitled to vote. Each holder of Class B Common Stock shall not be entitled to any voting powers for such shares thereof, except as (and then only to the extent) otherwise required by the laws of the State of Delaware. If a vote or consent of the holders of Class B Common Stock should at any time be required by the laws of the State of Delaware on any matter, each holder of the shares of Class B Common Stock shall be entitled to 1/1,000,000th of a vote on such matter for each share of Class B Common Stock held of record by such holder.

Liquidation Preferences—In the event of any dissolution, liquidation or winding up of the Company, the holders of Class A Common Stock shall first be entitled to receive an amount of the distributable assets of the Company equal to the aggregate amount of catch-up contributions on a pro rata proportion to the number of shares held. Secondly, each holder of shares of Class B Common Stock shall be entitled to the pro rata portion of the remaining amount of the distributable assets after the aforementioned distribution to each of the holders of Class A Common Stock and to each holder of shares of the Class A Common Stock, the remaining amount of distributable assets not otherwise allocated to the holders of Class B Common Stock pro rata in proportion to the number of such shares held.

13. STOCK-BASED COMPENSATION

NEP Share-Based Awards—The NEP Group Holdings, Inc. Equity Incentive Plan (the "Option Plan") provides for the grant of incentive stock options, nonqualified stock options and other share-based awards to persons or entities that provide services to the Company or its affiliates who, in the opinion of the Company's Board of Directors, are in a position to make a contribution to the long-term success of the Company. The Option Plan initially authorized the issuance of awards up to an aggregate of 1,000,000 shares of the Company's common stock. In August 2020, the Company's Board of Directors amended the Option Plan to permit the issuance of an additional 300,000 shares or up to an aggregate of 1,300,000 shares of the Company's common stock.

In accordance with ASC 718, *Compensation—Stock Compensation*, compensation expense for stock options is recorded over the vesting period based on the fair value at the date of grant. The fair value of stock options at the date of grant was calculated using the Black-Scholes model, and the assumptions are listed below:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Expected dividend yield	- %	- %
Expected life (years)	6.5	6.5
Expected volatility	40.86%–42.56%	43.06%–46.39%
Risk-free interest rate	1.57%–4.14%	0.58%–1.40%
Weighted average fair value of options granted	\$ 51.31	\$ 34.14

The Black-Scholes model determines the fair value of equity-based payment awards based on the fair value of the underlying common stock on the date of grant and requires the use of estimates and assumptions, including the fair value of the Company's common stock, exercise price of the stock option, expected volatility, expected life, risk-free interest rate, and dividend rate.

Volatility—The Company estimates the expected volatility of its stock options by taking the average historical volatility of a group of comparable publicly traded companies over a period equal to the expected life of the options; it is not practical for the Company to estimate its own volatility due to the lack of a liquid market and historical prices.

Expected Life—The expected life or term of the units was determined in accordance with existing equity agreements as the underlying units are assumed to be exercised upon the passage of time and attainment of certain operating targets.

Risk-Free Interest Rate—The risk-free interest rate is the estimated average interest rate based on US Treasury zero-coupon notes with terms consistent with the expected life of the awards.

Forfeiture Rate—The Company accounts for forfeitures of awards as they occur.

Dividend Yield—The Company has not historically paid and does not expect to pay dividends in the near future. As such, the dividend yield is 0%.

The aforementioned assumptions used in calculating the fair value of the stock options represent management judgment. As a result, if factors change and different assumptions are used, the stock-based compensation expense could be materially different in the future.

Class A Time-Vesting Options and Class B Units

A portion of the stock options granted vest based on the passage of time (Time-vesting Options) and a portion vest based on the achievement of performance conditions (Performance-vesting Options).

Changes in the Company's time-vesting Class A stock options were as follows:

	Time- Vesting Class A Options	Weighted- Average Exercise Price	Weighted- Average Remaining Life (Years)
Options outstanding—December 31, 2020	320,203	101.84	-
Granted	70,266	101.84	-
Exercised	-	-	-
Forfeited	<u>(44,778)</u>	101.84	-
Options outstanding—December 31, 2021	<u>345,691</u>	101.84	7.5
Options vested and expected to vest—December 31, 2021	<u>345,691</u>	101.84	7.5
Options exercisable—December 31, 2021	<u>156,039</u>	101.84	7.0
Options outstanding—December 31, 2021	345,691	101.84	7.5
Granted	138,290	109.56	-
Exercised	-	-	-
Forfeited	<u>(13,330)</u>	101.84	-
Options outstanding—December 31, 2022	<u>470,651</u>	104.11	7.4
Options vested and expected to vest—December 31, 2022	<u>470,651</u>	104.11	7.4
Options exercisable—December 31, 2022	<u>219,872</u>	101.84	6.2

The Option Plan also provides for the grant of Class B Unit awards. The grant date fair value of the Class B Unit awards is determined by Management on the date of grant and approved by the Board of Directors. A portion of the Class B Unit awards vest based the passage of time (Time-vesting Class B Units) and a portion vest based on the achievement of performance conditions (Performance-vesting Class B units).

Changes in the Company's time-vesting Class B Unit awards were as follows:

	Time- Vesting Class B Units	Weighted- Average Exercise Price	Weighted- Average Remaining Life (Years)
Class B Units outstanding—December 31, 2020	486,000	101.84	-
Granted	60,000	101.84	-
Exercised	-	-	-
Forfeited	<u>(70,000)</u>	101.84	-
Class B Units outstanding—December 31, 2021	<u>476,000</u>	101.84	8.5
Class B Units vested and expected to vest—December 31, 2021	<u>476,000</u>	101.84	8.5
Class B Units exercisable—December 31, 2021	<u>125,200</u>	101.84	8.1
Class B Units outstanding—December 31, 2021	476,000	101.84	8.5
Granted	8,000	101.84	-
Exercised	-	-	-
Forfeited	<u>-</u>	-	-
Class B Units outstanding—December 31, 2022	<u>484,000</u>	101.84	7.5
Class B Units vested and expected to vest—December 31, 2022	<u>484,000</u>	101.84	7.5
Class B Units exercisable—December 31, 2022	<u>218,000</u>	101.84	7.3

Compensation expense relating to all time-vesting stock awards (employee and nonemployee) is recorded on a straight-line basis. During the years ended December 31, 2022 and 2021, compensation expense related to stock options was \$2.9 million and \$1.9 million, respectively. As of December 31, 2022 and 2021, the total unrecognized compensation cost related to time-vesting options outstanding was \$9.7 million and \$5.9 million, respectively, and is expected to be recognized over a weighted average period of 3.8 years and 2.9 years, respectively.

During the years ended December 31, 2022 and 2021, compensation expense related to Class B Units was \$8.0 million and \$9.5 million, respectively. As of December 31, 2022 and 2021, the total unrecognized compensation cost related to time-vesting Class B Units outstanding was \$19.3 million and \$26.5 million, respectively, and is expected to be recognized over a weighted average period of 2.6 years and 3.5 years, respectively.

Class A Performance-Vesting Options and Class B Units

The Company has certain options and Class B Units that vest based on performance conditions achieved.

Changes in the Company's performance-vesting Class A stock options were as follows:

	Performance- Vesting Class A Options	Weighted- Average Exercise Price	Weighted- Average Remaining Life (Years)
Options outstanding—December 31, 2020	80,051	101.84	-
Granted	17,567	101.84	-
Exercised	-	-	-
Forfeited	<u>(11,195)</u>	101.84	-
Options outstanding—December 31, 2021	<u>86,423</u>	101.84	7.5
Options exercisable—December 31, 2021	<u>-</u>	-	-
Options outstanding—December 31, 2021	86,423	101.84	7.5
Granted	34,573	109.56	-
Exercised	-	-	-
Forfeited	<u>(3,445)</u>	101.84	-
Options outstanding—December 31, 2022	<u>117,551</u>	104.11	7.4
Options exercisable—December 31, 2022	<u>-</u>	-	-

None of the performance-vesting options vested and no stock-based compensation expense was recognized, as the performance condition was not considered probable, during the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the total unrecognized compensation cost related to performance-vesting options outstanding was \$4.7 million and \$3.0 million, respectively.

Changes in the Company's performance-vesting Class B Unit awards were as follows:

	Performance- Vesting Class B Units	Weighted- Average Exercise Price	Weighted- Average Remaining Life (Years)
Class B Units outstanding—December 31, 2020	119,000	101.84	-
Granted	15,000	101.84	-
Exercised	-	-	-
Forfeited	<u>(15,000)</u>	101.84	-
Class B Units outstanding—December 31, 2021	<u>119,000</u>	101.84	8.5
Class B Units exercisable—December 31, 2021	<u>-</u>	-	-
Class B Units outstanding—December 31, 2021	119,000	101.84	8.5
Granted	2,000	101.84	-
Exercised	-	-	-
Forfeited	<u>-</u>	-	-
Class B Units outstanding—December 31, 2022	<u>121,000</u>	101.84	7.5
Class B Units exercisable—December 31, 2022	<u>-</u>	-	-

None of the performance-vesting Class B Units vested and no stock-based compensation expense was recognized as the performance condition was not considered probable, during the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the total unrecognized compensation cost related to performance-vesting Class B Units outstanding was \$10.2 million and \$9.8 million, respectively.

14. RELATED-PARTY TRANSACTIONS

The Company entered into a consulting agreement with its majority shareholder, The Carlyle Group. As part of this consulting agreement, the Company is to pay an annual management fee of \$2.5 million, plus expense reimbursements of up to \$0.3 million. These fees are payable in advance in equal quarterly installments. During the year ended December 31, 2020, \$0.7 million was paid and the remaining amounts owed in 2020 and 2021 for management fees were deferred as a result of the global pandemic. During the year ended December 31, 2022, \$6.9 million in management fees were paid.

During the year ended December 31, 2020, the Company entered into stock subscription agreements with certain employees and shareholders that is collateralized with a recourse note. The outstanding balance under the recourse notes was \$1.0 million at December 31, 2022 and 2021, respectively.

The Company's corporate facility is leased through Development Partners, a real estate partnership, the ownership of which is comprised of certain members of management. For each of the years ended December 31, 2022 and 2021 the Company made payments on the lease totaling \$0.9 million, respectively. Additional related-party transactions are noted in Note 14.

15. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) Savings Plan (the "Plan") that allows employees to contribute from their annual compensation, subject to statutory limitations. The Plan covers all full-time employees who have attained age 18 as of the first of the month following the date of hire. The Company matches up to 2.0% of employee contributions and may make additional discretionary contributions equal to a percentage of eligible compensation. The Company's contribution remitted to the Plan during the years ended December 31, 2022 and 2021, was \$3.1 million and \$2.1 million, respectively.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During 2022 and 2021, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in comprehensive loss and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

In October 2018, the Company entered into a series of forward starting swaps to hedge against changes in interest rates in conjunction with the credit facility entered into as a means to finance a portion of The Carlyle Group acquisition in 2018 (see Note 10). These swaps were designed as cash flow hedges on the Company's floating-rate debt. The Company executed \$950.0 million of notional value swaps with an effective date of October 2018 and an additional 275.0 million EUR, or \$314.6 million, of notional value swaps with an effective date of December 2018. Both sets of swaps have a maturity of five years.

In October 2022, the Company entered into another series of forward starting swaps in anticipation of the 2023 maturity of the 2018 swaps. These swaps were also designed as cash flow hedges against the Company's floating-rate debt. The Company executed \$400.0 million of notional value swaps with an effective date of October 2022 and an additional 75.0 million EUR, or \$74.4 million, of notional value swaps with an effective date of December 2022. The \$400.0 million notional value swaps are in effect from October 2022 through October 2023 at which time the notional amount increases to \$950.0 million until October 2024 when the swap matures. The 75.0 million EUR, or \$74.4 million, of notional value swaps are in effect from October 2022 until September 2023 when the notional amount increases to 350.0 million EUR, or \$347.2 million, until October 2024 when the swap matures.

Credit Risk Management

The Company regularly reviews the creditworthiness of its financial counterparties and does not expect to incur a significant loss from the failure of any counterparties to perform under any agreements. The Company is not subject to any obligations to post collateral under derivative instrument contracts. Certain derivative instrument contracts entered into by the Company are governed by master agreements, which contain credit-risk-related contingent features that would allow the counterparties to terminate the contracts early and request immediate payment should the Company trigger an event of default on other specified borrowings. The Company records all derivative instruments on a gross basis in the consolidated balance sheets. Accordingly, there are no offsetting amounts that net assets against liabilities.

Fair Value of Derivative Instruments

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2022 and 2021.

		Derivatives		
		Consolidated Balance Sheet Location	2022	2021
Asset—Interest rate swaps	Other Current assets, Other long-term assets and Other long-term liabilities		<u>\$ 21,793</u>	<u>\$ -</u>
Liability—Interest rate swaps	Current Accrued expenses and other long-term liabilities		<u>\$ -</u>	<u>\$ 42,014</u>

Effect of Cash Flow Hedge Accounting on Accumulated Other Comprehensive Loss

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive loss as of December 31, 2022 and 2021.

	Amount of Gain/(Loss) Recognized in AOCL (Net of Tax) on Derivatives (Effective Portion)	
	2022	2021
Interest rate swaps	<u>\$ 62,635</u>	<u>\$ (38,910)</u>

Effect of Cash Flow Hedge Accounting on the Consolidated Statements of Operations and Comprehensive Loss

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations and comprehensive loss for the years ended December 31, 2022 and 2021.

	Consolidated Income Statement Location	Amount of Loss Reclassified from AOCL into Earnings (Effective Portion)	
		December 31, 2022	December 31, 2021
Interest rate swaps	Interest expense	<u>\$ 13,945</u>	<u>\$ 30,408</u>

Fair Value Measurement

Fair value is based on the price that would be received from the sale of an identical asset or paid to transfer an identical liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy has been established that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2—Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.

Level 3—Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value. The Company holds certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents as well as derivative instruments.

Financial assets and liabilities carried at fair value are classified in the tables below in one of three categories described above.

	December 31, 2022			Total
	Level 1	Level 2	Level 3	
Assets—interest rate swap contract	<u>\$ -</u>	<u>\$21,793</u>	<u>\$ -</u>	<u>\$21,793</u>

	December 31, 2021			Total
	Level 1	Level 2	Level 3	
Liabilities—interest rate swap contract	<u>\$ -</u>	<u>\$42,014</u>	<u>\$ -</u>	<u>\$42,014</u>

The following section describes the valuation methodology used to measure the Company's financial assets and liabilities that were accounted for at fair value:

	Level	Significant Inputs
Interest rate swap contract	2	Broker quotations, market transactions in either listed or over-the counter markets

Overview of Valuation Methodology

As required by U.S. GAAP for fair value measurements and disclosures, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and the placement within the fair value hierarchy levels. There were no transfers between Level 1 and Level 2 during the periods presented.

17. SUBSEQUENT EVENTS

On January 19, 2023, the Company's Board of Directors approved a Series A Preferred Stock Purchase Agreement to raise capital with funds affiliated with the Carlyle Group. The agreement allows for up to an aggregate of 176,942.65863 shares of Series A Preferred Stock at a purchase price per share equal to \$1,000, and required an initial purchase of 75,000 shares, or \$75.0M. The initial amount of \$75.0M was funded to the Company on January 19, 2023. The remaining shares may be purchased in subsequent periods.

In January 2023, the Company entered into another forward starting swap in anticipation of the 2023 maturity of the 2018 swaps. This swap was also designed as a cash flow hedges against the Company's floating-rate debt. The Company executed \$400.0 million of a notional value swap with an effective date of October 2023. The swap has a maturity of one year.

The Company has evaluated and disclosed subsequent events through March 31, 2023, the date these consolidated financial statements were available to be issued.

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