UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2023

OR

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

For the transition period from to

Commission file number 001-38858

XPEL, INC.

(Exact name of registrant as specified in its charter)

Nevada	**20-1117381**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

711 Broadway, Suite 320	**San Antonio**	**Texas**	**78215**
(Address of Principal Executive Offices)			(Zip Code)

Registrant's telephone number, including area code: (210) 678-3700

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	XPEL	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as identified in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the Registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the Registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, as of June 30, 2023, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately $2,100,717,483.

The Registrant had 27,631,097 shares of common stock outstanding as of February 28, 2024.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into which Incorporated
Portions of the registrant's Proxy Statement relating to the 2024 Annual Meeting of Stockholders to be held on June 5, 2024.	Part III

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements made in this Annual Report on Form 10-K ("Annual Report") include forward-looking statements, which reflect our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Annual Report and are subject to a number of risks, uncertainties and assumptions described under the sections entitled "Business," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements and Supplementary Data" and elsewhere in this Annual Report.

Forward-looking statements include, but are not limited to, statements with respect to the nature of our strategy and capabilities, the vertical and regional expansion of our market and business opportunities, and the expansion of our product offerings in the future. Statements that include words like "believe," "expect," "anticipate," "intend," "plan," "seek," "estimate," "could," "potentially" or similar expressions are forward-looking statements and reflect future predictions that may not be correct, even though we believe they are reasonable. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond our control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made.

The forward-looking statements reflect our current expectations and are based on information currently available to us and on assumptions we believe to be reasonable. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, activities, performance or achievements to be materially different from that expressed or implied by such forward-looking statements.

Although we have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. The forward-looking information contained herein is made as of the date of this Annual Report and, other than as required by law, we do not assume any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

You should also read the matters described in "Risk Factors" and the other cautionary statements made in this Annual Report as being applicable to all related forward-looking statements wherever they appear in this Annual Report. The forward-looking statements in this Annual Report may not prove to be accurate and therefore you are encouraged not to place undue reliance on forward-looking statements. You should read this Annual Report completely.

EXPLANATORY NOTE

This Annual Report includes estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

We own or have rights to trademarks or trade names that we use in connection with the operation of our business, including our corporate names, logos and website names. In addition, we own or have the rights to copyrights, trade secrets and other proprietary rights that protect the content of our products and the formulations for such products. Solely for convenience, some of the trademarks, trade names and copyrights referred to in this report are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our trademarks, trade names and copyrights. Please see "Business - Intellectual Property and Brand Protection" for more information.

Other trademarks and trade names in this Annual Report are the property of their respective owners.

Unless the context indicates otherwise, all references in this Annual Report to “XPEL,” the “Company,” “we,” “us,” and “our” refer to XPEL, Inc. and its subsidiaries.

SUMMARY OF RISK FACTORS

The following is a summary of the most significant risks and uncertainties that we believe could adversely affect our business, financial condition or results of operations. In addition to the following summary, you should consider the other information set forth in the “Risk Factors” section and the other information contained in this Annual Report.

Operational Risks

- We currently rely on one distributor for our products in China. The loss of this relationship, or a material disruption in sales by this distributor, could severely harm our business.
- A significant percentage of our revenue is generated from our business in China, a market that is associated with certain risks.
- The loss of one or more of our key personnel or our failure to attract and retain other highly qualified personnel in the future, could harm our business.
- A material disruption from our contract manufacturers or suppliers or our inability to obtain a sufficient supply from alternate suppliers could cause us to be unable to meet customer demands or increase our costs.
- Our asset-light business model exposes us to product quality and variable cost risks.
- The preparation of our financial statements involves the use of estimates, judgments and assumptions, and our financial statements may be materially affected if such estimates, judgments or assumptions prove to be inaccurate.

Risks Related to Our Business and Industry

- We are highly dependent on the automotive industry. A prolonged or material contraction in automotive sales and production volumes could adversely affect our business, results of operations and financial condition.
- Fluctuations in the cost and availability of raw materials, equipment, labor and transportation could cause manufacturing delays, increase our costs and/or impact our ability to meet customer demand.
- The after-market automotive product supply business is highly competitive. Competition presents an ongoing threat to the success of our Company.
- Harm to our reputation or the reputation of one or more of our products could have an adverse effect on our business.
- Our revenue and operating results may fluctuate, which may make our results difficult to predict and could cause our results to fall short of expectations.
- Technology could render the need for some of our products obsolete.
- Infringement of our intellectual property could impact our ability to compete effectively.

Strategic Risks

- If changes to our existing products or introduction of new products or services do not meet our customers’ expectations or fail to generate revenue, we could lose our customers or fail to generate any revenue from such products or services and our business may be harmed.
- We depend on our relationships with independent installers and new car dealerships and their ability to sell and service our products. Any disruption in these relationships could harm our sales.
- We may not be able to identify, finance and complete suitable acquisitions and investments, and any completed acquisitions and investments could be unsuccessful or consume significant resources.

Legal, Regulatory and Compliance Risks

- We may incur material losses and costs as a result of product liability and warranty claims.
- Violations of the U.S. Foreign Corrupt Practices Act and similar anti-corruption laws outside the U.S. could have a material adverse effect on us.
- Our failure to satisfy international trade compliance regulations, and changes in U.S. government sanctions, could have a material adverse effect on us.

Liquidity Risks

- We may seek to incur substantial indebtedness in the future.
- We cannot be certain that additional financing will be available on reasonable terms when required, or at all.
- Our variable rate indebtedness exposes us to interest rate volatility, which could cause our debt service obligations to increase significantly.

Risks Relating to Common Stock

- If research analysts issue unfavorable commentary or downgrade our Common Stock, the price of our Common Stock and its trading volume could decline.
- Our stock price has been, and may continue to be, volatile.
- We may issue additional equity securities or engage in other transactions that could dilute our book value or affect the priority of our Common Stock, which may adversely affect the market price of our Common Stock.
- We may issue shares of preferred stock with greater rights than our Common Stock.
- We have not paid any cash dividends in the past and have no plans to pay cash dividends in the future, which could cause our Common Stock to have a lower value than that of similar companies which do not pay cash dividends.
- Shares eligible for future sale may depress our stock price.

General Risk Factors

- General global economic and business conditions affect demand for our products.
- A public health crisis could impact our business
- Economic, political and market conditions can adversely affect our business, financial condition and results of operations.

Part I

Item 1. Business

Company Overview

We are a supplier of automotive paint protection film, automotive window film, ceramic coatings, architectural window film products, and related tools and equipment to support the installation of these products. We also function as a service provider offering installation of these products through multiple channels. The majority of our revenue is derived from our automotive products and services while the remainder of our revenue is derived from non-automotive products including architectural window film, marine and flat surface protection films.

The Company began as a software company designing vehicle patterns used to produce cut-to-fit protective film for the painted surfaces of automobiles. In 2007, we began selling automotive surface and paint protection film products to complement our software business. In 2011, we introduced our ULTIMATE protective film product line which, at the time was the industry's first protective film with self-healing properties. The ULTIMATE technology allows the protective film to better absorb the impacts from rocks and other road debris, thereby fully protecting the vehicle. The film is described as "self-healing" due to its ability to return to its original state after damage from surface scratches. The launch of the ULTIMATE product catapulted the Company into several years of strong revenue growth.

Our over-arching strategic philosophy stems from our view that being closer to the end customer in terms of our channel strategy affords us a better opportunity to efficiently introduce new products and deliver tremendous value which, in turn, drives more revenue growth for the Company.

Products and Services

Surface and Paint Protection Film Rolls: Our primary products are paint and surface protection films. Most of the products sold are for automotive applications. Paint protection film, our flagship product, is a self-adhesive, clear film designed to be applied to painted surfaces of automobiles and other surfaces. Historically, one of the top complaints from new car buyers has been damage to paint from rock chips and road debris. Paint protection film solves for this issue by protecting the painted surface from such damage. The installation of paint protection film requires training and practice to become proficient. Most installers of paint protection film prefer to use software and a pattern databases to aid in the installation. The benefits of using software for installation include increased installation efficiency and reduction of waste. Some of the products sold are used for non-automotive applications, such as industrial protection, screen protection or architectural protection. We sell a variety of product lines each with their own unique characteristics, warranty and intended use. Surface and Paint Protection film sales represented approximately 58.0% of our consolidated revenue for the year ended December 31, 2023.

Automotive Window Film Rolls: We sell several lines of automotive window films, primarily under the XPEL PRIME brand name, which exhibit a range of performance characteristics and appearances. Automotive window film sales represented approximately 14.8% of our consolidated revenue for the year ended December 31, 2023.

Architectural Window Film Rolls: We sell architectural glass solutions for commercial and residential buildings under the VISION brand name, representing our first product set with a fully non-automotive use. Architectural window films come in several broad categories, including:

SOLAR: Solar films are designed to provide solar energy rejection. We offer a variety of films with varying colors, visual light transmissions and price points.

SAFETY & SECURITY: Safety and Security films are clear, thick polyethylene terephthalate, or PET, films to secure glass in the event of a breakage. We offer a variety of thicknesses and offer films with varying adhesive characteristics for different types of installations.

OTHER: In addition to the main categories of SOLAR and SAFETY & SECURITY films, we also offer anti-graffiti, exterior applied and decorative films.

Architectural window film sales represented approximately 2.3% of our consolidated revenue for the year ended December 31, 2023.

Ceramic coating: We sell a hydrophobic, self-cleaning coating that can be applied to a variety of surface types for automobiles, aircraft and marine applications. Ceramic coating sales represented less than 2% of our consolidated revenue for the year ended December 31, 2023.

Software: A key component of our product offering is our Design Access Platform ("DAP"). DAP is a proprietary SAAS platform and database consisting of over 80,000 vehicle applications used by the Company and its customers to cut automotive protection film into vehicle panel shapes for both paint protection film and window film products.

We commit significant resources to keep the pattern database updated with a goal toward having a pattern for every panel of every vehicle. When new vehicle models are introduced to the market, we strive to create the pattern as soon as possible. Our patterns and software increase installer efficiency and reduce waste.

Our DAP customers pay a monthly access fee to access our proprietary database. Monthly DAP subscriptions represented less than 2% of our consolidated revenue for the year ended December 31, 2023.

Installation, Dealership and OEM Services: We offer installation services of our various products directly to retail and wholesale customers through our Company-owned installation facilities in their respective markets, through our dealership services business which provides on-site services to automobile dealerships and to Original Equipment Manufacturers ("OEMs"). Installation services (including product and labor revenue) represented approximately 18% of our consolidated revenue for the year ended December 31, 2023.

Miscellaneous Products, Tools and Pre-Cut Films: We sell a variety of other miscellaneous product sets including pre-cut film products, tools and accessories and merchandise and apparel.

Strategic Overview

XPEL continues to pursue several key strategic initiatives to drive continued growth. Our global expansion strategy includes establishing a local presence where possible, allowing us to better control the delivery of our products and services. We also add locally based regional sales personnel, leveraging local knowledge and relationships to expand the markets in which we operate.

We seek to increase global brand awareness in strategically important areas, including pursuing high visibility at premium events such as major car shows and high value placement in advertising media consumed by car enthusiasts, to help further expand the Company's premium brand.

XPEL also continues to expand its delivery channels by acquiring select installation facilities in key markets and acquiring international partners to enhance our global reach. As we expand globally, we strive to tailor our distribution model to adapt to target markets. We believe this flexibility allows us to penetrate and grow market share more efficiently. Our acquisition strategy centers on our belief that the closer the Company is to its end customers, the greater its ability to drive increased product sales. During

2023, we completed four acquisitions in furtherance of this objective. We believe our channel strategy uniquely positions us to be wherever the demand takes us and is a key part of our ability to drive sustained growth.

We also continue to drive expansion of our non-automotive product portfolio. Our architectural window film segment continues to gain traction. We believe there are multiple uses for protective films and we continue to explore those adjacent market opportunities.

Sales and Distribution

We sell and distribute our products through independent installers, new car dealerships, third-party distributors, Company-owned installation centers, Automobile Original Equipment Manufacturers, Protex Canada's franchisees, and online.

Independent Installers/New Car Dealerships

We primarily operate by selling a complete turn-key solution directly to independent installers and new car dealerships, which includes XPEL protection films, installation training, access to our proprietary DAP software, marketing support and lead generation. For the year ended December 31, 2023, approximately 63.2% of the Company's consolidated revenue was through this channel.

We offer a suite of services to complement our products for our dealers and strive to create value for being an XPEL dealer. We provide access to our proprietary DAP software which, in turn, provides access to pattern libraries that enable cutting our films into specific shapes to aid in their installation. We believe that this software greatly enhances installation efficiency and reduces film waste – a valuable feature to our customers, as their highest cost tends to be labor. Increasingly, DAP is used to manage operations for our dealers, including job management, scheduling and inventory tracking. We also provide marketing and lead generation for our customers by featuring them in our dealer locator on our website. To be considered an Authorized Dealer (and thereby have end customers referred to them), independent installers must employ certified installers and meet other requirements including purchase minimums and more.

Our products are primarily utilized for new cars. As such, new car dealerships will likely be involved in the ultimate sale of our products and services. New car dealerships have multiple options to sell our products: 1) outsourcing the installation of film to the after-market which is the most common option; 2) developing an in-house program where they hire and train their own employees to install the product; and, 3) utilizing third-party labor to install the product in the dealership facility either on a pre-load basis or after the sale. We are agnostic as to who applies our products to new vehicles. We support all of these options for new car dealerships through the sales and support to our after-market customers, training and support to dealerships who want to build an in-house program and through our Dealership Services business which provides third-party installation services at dealership locations primarily on a pre-load basis.

XPEL also offers 24/7 customer service for independent installers and new car dealerships where we provide installation, software and training support via our website and telephone technical support services.

Distributors

In various parts of the world, XPEL operates primarily through third-party distributors under written agreements with the Company to develop a market or a region under our supervision and direction. These distributors may sell to other distributors or customers who ultimately install the product on an end customer's vehicle. Due to the nature of this channel, product margins are generally less than other channels. For the year ended December 31, 2023, approximately 18.1% of the Company's consolidated revenue was through this channel.

In China, we operate through a sole distributor under a distribution agreement, Shanghai Xing Ting Trading Co., Ltd., which we refer to as the China Distributor. Approximately 10.5% of our consolidated revenue for the year ended December 31, 2023, was derived from sales to the China Distributor.

We consider our relations with the China Distributor to be good, but the loss of our relationship could result in the delay of the distribution and a decrease in marketing of our products in China. For more information, see Risk Factors—*We currently rely on one distributor of our products and services in China. The loss of this relationship, or a material disruption in sales by this distributor, could severely harm our business"* and *"A significant percentage of our revenue is generated from our business in China, a market that is associated with certain risks."*

Company-Owned Installation Centers/Dealership Services

XPEL operates 24 Company-owned installation centers: ten in the United States, ten in Canada and one each in the United Kingdom, Australia, Mexico, and Taiwan. These locations serve wholesale and retail customers in their respective markets. The Company also provides on-site installation services to automobile dealerships throughout the United States and Canada through its dealership services business. This channel represented approximately 14.0% of the Company's consolidated revenue for the year ended December 31, 2023.

Some of our Company-owned installation centers are located in geographic areas where we also serve customers in our independent installer/dealership channel, which could be perceived to generate channel conflict. However, we believe these channels have a synergistic relationship with our Company-owned centers supporting independent installers and dealerships by allowing us to implement local marketing, making inventory available locally for fast delivery, offering overflow installation capacity and assisting with training needs. We believe this channel strategy benefits our goal of generating the most revenue possible.

Automobile Original Equipment Manufacturers ("OEMs")

XPEL sells products, including paint protection film, and provides services, including the installation of paint protection film and pre-delivery inspection to various OEMs. These services are provided in-plant at the OEMs' facilities or in one of our facilities that is typically adjacent to the OEM's facility. This channel represented approximately 4.1% of the Company's consolidated revenue for the year ended December 31, 2023.

Online and Catalog Sales

XPEL offers certain products such as paint protection kits, car wash products, after-care products and installation tools via its website. Revenues from this channel are negligible, but we believe that by offering these products on our website, we increase brand awareness. The revenue from this channel represented less than 1.0% of the Company's consolidated revenue for the year ended December 31, 2023.

Competition

The Company principally competes with other manufacturers and distributors of automotive protective film products. While the Company considers itself a product company competing with other product companies, the Company believes its suite of services which accompany the Company's product offerings including its software, marketing and lead generation to its customers and customer service provide for substantial differentiation from its competitors. Within the market for surface and paint protection film, our principal competitors include Eastman Chemical Company (under the LLumar and Suntek brands) and several other smaller companies. For more information, see Risk Factors—*The after-market automotive product supply business is highly competitive. Competition presents an ongoing threat to the success of our Company.*

Suppliers

The Company's products are sourced from a number of suppliers or manufactured by various third-party contract manufacturers. The Company has currently opted to pursue an "asset-light" manufacturing model whereby third-party suppliers and manufacturers are used to supply the Company with the majority of its products. We routinely evaluate building or buying manufacturing assets for some of our products, but we believe that our asset-light model best suits the Company at the present time. The Company's film products (including paint protection film and automotive and architectural window films) are produced using various roll-to-roll manufacturing processes performed entirely by third parties. The Company internalizes many conversion operations including quality assurance, inspection, rewinding, boxing and packaging for many of its products at its facilities around the world.

The Company's product lines continue to grow and include both film and non-film products. The products fall into three categories:

- Products where we own or license the intellectual property or, "IP" – the Company owns or licenses the underlying IP for product construction or for one or more components of the product and could seek to have the products made at a variety of manufacturing locations. The Company has a perpetual license to United States Patent No. 8,765,263 "Multilayer Polyurethane Protective Films".

- Products that are made for us on an exclusive basis – the Company does not own all the underlying IP, but has products made by a third party solely for the Company on an exclusive basis.

- Products that we source from suppliers on a non-exclusive basis – the Company does not own the underlying IP but sources products on commercial terms from a third party.

The Company either owns or licenses the relevant IP or has alternative substitutes to continue to operate for the material portion of products sold.

The loss of our relationship with any of our suppliers or contract manufacturers could result in the delay of the manufacture and delivery of some of our automotive film products. For more information, see Risk Factor—*A material disruption from our contract manufacturers or suppliers, or our inability to obtain a sufficient supply of product from alternate suppliers, could cause us to be unable to meet customer demands or increase our costs*.

Government Regulation and Legislation

The manufacturing, packaging, storage, distribution, advertising and labeling of our products and our business operations all must comply with extensive federal, state and foreign laws and regulations and consumer protection laws. Governmental regulations also affect taxes and levies, capital markets, healthcare costs, energy usage, international trade, immigration and other labor issues, all of which may have a direct or indirect negative effect on our business and our customers' and suppliers' businesses. We are also required to comply with certain federal, state and local laws and regulations and industry self-regulatory codes concerning privacy and data security. These laws and regulations require us to provide customers with our policies on sharing information with third parties, and advance notice of any changes to these policies. Related laws may govern the manner in which we store or transfer sensitive information or impose obligations on us in the event of a security breach or inadvertent disclosure of such information.

International jurisdictions impose different, and sometimes more stringent, consumer and privacy protections.

Our products are subject to export controls, including the U.S. Department of Commerce's Export Administration Regulations and economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Asset Controls, and similar laws that apply in other jurisdictions in which we distribute or sell our products. Export control and economic sanctions laws include prohibitions on the sale or supply of certain products and services to certain embargoed or sanctioned countries, regions, governments, persons and entities. In addition, various countries regulate the import of certain products, through import permitting and licensing requirements, as well as customs, duties and similar charges, and have enacted laws that could limit our ability to distribute our products. The exportation, re-exportation, and importation of our products, including by our distributors, must comply with these laws or else we may be adversely affected, through reputational harm, government investigations, penalties, and a denial or curtailment of our ability to export our products. Complying with export control and sanctions laws for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. If we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us. Changes in export, sanctions or import laws, may delay the introduction and sale of our product in international markets, or, in some cases, prevent the export or import of our products to certain countries, regions, governments, persons or entities altogether, which could adversely affect our business, financial condition and operating results.

We are also subject to various domestic and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our exposure for violating these laws would increase to the extent our international presence expands and as we increase sales and operations in foreign jurisdictions.

In the ordinary course of business, we collect and utilize information supplied by our customers, which may include personal information and other data. We are also subject to and comply with increasingly complex privacy and data protection laws and regulations in the United States and other jurisdictions. This includes the EU's General Data Protection Regulation ("GDPR") and the California Privacy Rights Act ("CPRA"), which enforce rules relating to the protection of processing and movement of personal data. The interpretation and enforcement of such regulations are continuously evolving and there may be uncertainty with respect to how to comply with them. Noncompliance with GDPR, the CPRA and other data protection laws could result in damage to our reputation and payment of monetary penalties.

Environmental Matters

General

We are subject to a variety of federal, state, local and foreign environmental, health and safety laws and regulations governing, among other things, the generation, storage, handling, use and transportation of hazardous materials; the emission and discharge of hazardous materials into the environment; and the health and safety of our employees. The Company is ISO 14001:2015 registered and accredited. We have incurred and expect to continue to incur costs to maintain or achieve compliance with environmental, health and safety laws and regulations. To date, these costs have not been material to the Company.

Recycling

The Company strives to be a good steward of the environment. The Company recycles plastic cores, film waste, corrugated boxes and other material related to our conversion operations. We utilize third-party software to monitor our progress on this objective.

Intellectual Property and Brand Protection

We own intellectual property rights, including numerous patents, copyrights and trademarks, that support key aspects of our brand and products. We believe these intellectual property rights, combined with our brand name and reputation, provide us with a competitive advantage. We protect our intellectual property rights in the United States and many international jurisdictions.

We aggressively pursue and defend our intellectual property rights to protect our distinctive brand and products. We have processes and procedures in place to identify and protect our intellectual property assets on a global basis. We utilize legal and brand protection resources to initiate claims and litigation to protect our intellectual property assets. In the future, we intend to continue to seek intellectual property protection for our products and enforce our rights against those who infringe on these valuable assets.

Human Capital Resources

On December 31, 2023, the Company employed approximately 1,054 people (full-time equivalents), with approximately 710 employed in the United States and 344 employed internationally. We believe that the ability to recruit, retain, develop, protect and fairly compensate our global workforce greatly contributes to the Company's success.

In addition to a professional work environment that promotes innovation and rewards performance, the Company's total compensation for employees includes a variety of components that support sustainable employment and the ability to build a strong financial future, including competitive market-based pay and comprehensive benefits. In addition to earning a base salary, eligible employees are compensated for their contributions to the Company's short and long-term goals with cash and equity incentives. Through its global pay philosophy, principles and consistent implementation, the Company is committed to providing fair and equitable pay for employees. Eligible full-time employees in the United States also have access to medical, dental and vision plans, savings plans and other resources. Programs and benefits differ internationally for a variety of reasons, such as local legal requirements, market practices and negotiations with work councils, trade unions and other employee representative bodies.

Available Information

XPEL was incorporated in Nevada in 2003. Our street address is 711 Broadway, Suite 320, San Antonio, Texas 78215 and our phone number is (210) 678-3700. The address of our website is www.xpel.com. The inclusion of the Company's website address in this Annual Report does not include or incorporate by reference the information on or accessible through the Company's website, and the information contained on or accessible through the website should not be considered as part of this Annual Report.

The Company will make its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports (and amendments to those reports) filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act, available on the Company's website as soon as reasonably practicable after the Company electronically files or furnishes such materials with the Securities and Exchange Commission or, "SEC". Interested persons can view such materials without charge under the "Investor Relations" section and then by clicking "Corporate Filings / Financial Results" on the Company's web site. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information about SEC registrants, including XPEL.

Item 1A. Risk Factors

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere in this Annual Report. See "Cautionary Notice Regarding Forward-Looking Statements."

Operational Risks

We currently rely on one distributor of our products and services in China. The loss of this relationship, or a material disruption in sales by this distributor, could severely harm our business.

The Company distributes all of its products in China through one distributor, with sales to such distributor representing approximately 10.5% of our consolidated revenue for the year ended December 31, 2023. The China Distributor places orders with us on a prepaid basis at a price set by us, which we may change with 30 days' notice. The China Distributor then generates orders, sells and distributes our products to its end customers in China.

Any failure by the China Distributor to perform its obligations, including a failure to procure sufficient orders of our products to satisfy customer demand or a failure to adequately market our products, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Because of our dependence on the China Distributor, any loss of our relationship or any adverse change in the financial health of such distributor that would affect its ability to distribute our products may have a material adverse effect on our business, financial condition, results of operations and cash flows.

A significant percentage of our revenue is generated from our business in China, a market that is associated with certain risks.

Maintaining a strong position in the Chinese market is a key component of our global growth strategy. During the year ended December 31, 2023, approximately 10.5% of our consolidated revenue was generated in China, more than any other country outside of the U.S. and Canada in which we operate, and we expect to continue to expand our business in China. However, there are risks generally associated with doing business in China, including:

Significant political and economic uncertainties

Historically, the Chinese government has exerted substantial influence over the business activities of private companies. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice. Furthermore, the Chinese government continues to exercise significant control over the Chinese economy through regulation and state ownership. Changes in China's laws, regulations or policies, including those affecting taxation, currency, imports, or the nationalization of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Furthermore, government actions in the future could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties.

Limited recourse in China

While the Chinese government has enacted a legal regime surrounding corporate governance and trade, its history of implementing such laws and regulations is limited. It is unclear how successful any attempt to enforce commercial claims or resolve commercial disputes will be. The resolution of any such dispute may be subject to the exercise of considerable discretion by the Chinese government and its agencies and forces unrelated to the legal merits of a particular matter or dispute may influence their determination.

Additionally, any rights we may have to specific performance, or to seek an injunction under China law, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations.

Uncertain interpretation of law

There are substantial uncertainties regarding the interpretation and application of the laws and regulations in the greater China area, including, but not limited to, the laws and regulations governing our business. China's laws and regulations are frequently subject to change due to rapid economic and social development and many of them were newly enacted within the last ten years. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The Chinese government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business permits and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to our Company by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new Chinese laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found to be in violation of any current or future Chinese laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

Trade policy

In 2018, the U.S. government took the stance that China was engaged in unfair trade practices, and instituted a series of tariffs and other trade barriers on China in response. Though the U.S. and China reached a phase one agreement in January 2020, tension persists between the two countries. The current administration instituted additional export controls in October 2022 and October 2023. Although the current U.S. administration has continued to enforce the phase one agreement, the future of U.S. and Chinese trade relations is uncertain. If the current agreement is abandoned, changed or violated by either party, we could be forced to increase the sales price of our products, reduce margins, or otherwise suffer from trade restrictions or changes in policy levied by the U.S. or Chinese governments, any of which may have a material adverse effect on our business.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of our executive officers, Ryan L. Pape, our President and Chief Executive Officer and Barry R. Wood, our Senior Vice President and Chief Financial Officer, none of whom has an employment agreement. Loss of key personnel, including members of management as well as key product development, marketing, and sales personnel, could disrupt our operations and have an adverse effect on our business. As we continue to grow, we cannot guarantee that we will continue to attract the personnel we need to maintain our competitive position. As we grow, the incentives to attract, retain, and motivate employees may not be as effective as in the past. If we do not succeed in attracting, hiring, and integrating effective personnel, or retaining and motivating existing personnel, our business could be adversely affected.

A material disruption from our contract manufacturers or suppliers, or our inability to obtain a sufficient supply of products from alternate suppliers, could cause us to be unable to meet customer demands or increase our costs.

If any of our sources of supply were to deteriorate or operations were to be disrupted as a result of disagreements with one or more of our contract manufacturers or suppliers, significant equipment failures, natural disasters, earthquakes, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes or other reasons, we may be unable to fill customer orders or otherwise meet customer demand for our products. Any such disruption or failure by us to obtain a sufficient supply of our products to satisfy customer demand could increase our costs and reduce our sales, either of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our contract manufacturers and suppliers could be subject to various supply chain disruptions. Such disruptions could cause us to not be able to meet demand due to a lack of inventory and/or cause a significant increase in costs of raw materials and shipping costs. Our ability to produce and timely deliver our products may be materially impacted in the future should supply chain disruptions develop or worsen. In addition, because of rising costs, we may be forced to increase the price of our products to our customers, or we may have to reduce our gross margins on the products that we sell.

Our ability to meet the demand of our customers on a timely basis is dependent upon the quality of film we receive from our contract manufacturers and suppliers. If we are unable to successfully manage the production of quality film produced by our contract manufacturers on a timely basis, our ability to meet the demand of our customers may be severely impacted.

Our asset-light business model exposes us to product quality and variable cost risks.

We rely on the ability of contract manufacturers and suppliers to deliver adequate supplies of quality film. If contract manufacturers and suppliers are unable to deliver products that meet quality standards, we may lack recourse or the ability to make the quality improvements ourselves.

Our asset-light model for manufacturing trades lower fixed costs for higher variable costs. If existing or new competitors have lower variable costs, our ability to effectively compete could be impacted.

If we choose to transition away from our asset-light model approach, our capital requirements and capital allocation decisions may fundamentally change which may introduce additional operational, environmental and other risks. In addition, the Company may lack the experience to manage this transition effectively or may lack the appropriate personnel to successfully accomplish this transition.

The preparation of our financial statements involves the use of estimates, judgments and assumptions, and our financial statements may be materially affected if such estimates, judgments and assumptions prove to be inaccurate.

Financial statements prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP" or "GAAP") require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on the consolidated financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management's judgment include, but are not limited to, determining the fair value of our assets and the timing and amount of cash flows from our assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, we face the risk that charges to income will be required. Any such charges could significantly harm our business, financial condition, results of operations and the price of our securities. Estimates and assumptions are made on an ongoing basis for the following: revenue recognition, capitalization of software development costs, impairment of long-lived assets, inventory reserves, allowances for doubtful accounts, fair value for business combinations, and impairment of goodwill.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would likely negatively affect our business and the market price of our Common Stock.

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing conducted by us, or any testing conducted by our independent registered public accounting firm may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which is likely to negatively affect our business and the market price of our Common Stock.

Risks Related to Our Business and Industry

We are highly dependent on the automotive industry. A prolonged or material contraction in automotive sales and production volumes could adversely affect our business, results of operations and financial condition.

Automotive sales and production are cyclical and depend on, among other things, general economic conditions, consumer spending, vehicle demand and preferences (which can be affected by a number of factors, including fuel costs, employment levels and the availability of consumer financing). As the volume of automotive production and the mix of vehicles produced fluctuate, the demand for our products may also fluctuate. Prolonged or material contraction in automotive sales and production volumes, or significant changes in the mix of vehicles produced, could cause our customers to reduce purchases of our products and services, which could adversely affect our business, results of operations and financial condition.

Fluctuations in the cost and availability of raw materials, equipment, labor and transportation could cause manufacturing delays, increase our costs and/or impact our ability to meet customer demand.

The price and availability of key components used to manufacture our products may fluctuate significantly. Any fluctuations in the cost and availability of any of our products and/or any interruptions in the delivery of our products could harm our gross margins and our ability to meet customer demand. If we are unable to successfully mitigate these cost increases, supply interruptions and/or labor shortages, our results of operations could be affected.

The after-market automotive product supply business is highly competitive. Competition presents an ongoing threat to the success of our Company.

We face significant competition from a number of companies, many of whom have greater financial, marketing and technical resources than us, as well as regional and local companies and lower-cost manufacturers of automotive and other products. Such competition may result in pressure on our profit margins and limit our ability to maintain or increase the market share of our products.

Additionally, as we introduce new products and as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition. Our principal competitors have significantly greater resources than we do. This may allow our competitors to respond more effectively than we can to new or emerging technologies and changes in market requirements. Our competitors may also develop products, features, or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. Certain competitors could use strong or dominant positions in one or more markets to gain a competitive advantage against us.

We believe that our ability to compete effectively depends upon many factors both within and beyond our control, including:

- the usefulness, ease of use, performance, and reliability of our products compared to our competitors;
- the timing and market acceptance of products, including developments and enhancements to our products or our competitors' products;
- customer service and support efforts;
- marketing and selling efforts;
- our financial condition and results of operations;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- our ability to attract, retain, and motivate talented employees;
- our ability to cost-effectively manage and grow our operations;
- our ability to meet the demands of local markets in high-growth emerging markets, including some in which we have limited experience; and
- our reputation and brand strength relative to that of our competitors.

If we are unable to differentiate or successfully adapt our products, services and solutions from competitors, or if we decide to cut prices or to incur additional costs to remain competitive, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Harm to our reputation or the reputation of one or more of our products could have an adverse effect on our business.

We believe that maintaining and developing the reputation of our products is critical to our success and that the importance of brand recognition for our products increases as competitors offer products similar to our products. We devote significant time and incur substantial marketing and promotional expenditures to create and maintain brand loyalty as well as increase brand awareness of our products. Adverse publicity about us or our brands, including product safety or quality or similar concerns, whether real or perceived, could harm our image or that of our brands and result in an adverse effect on our business, as well as require resources to rebuild our reputation.

Our revenue and operating results may fluctuate, which may make our results difficult to predict and could cause our results to fall short of expectations.

As a result of the rapidly changing nature of the markets in which we compete, our quarterly and annual revenue and operating results may fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control. For example, changes in industry or third-party specifications may alter our development timelines and consequently our ability to deliver and monetize new or updated products and services. Other factors that may cause fluctuations in our revenue and operating results include:

- any failure to maintain strong customer relationships;
- any failure of significant customers, including distributors, to renew their agreements with us;
- variations in the demand for our services and products and the use cycles of our services and products by our customers;
- changes in our pricing policies or those of our competitors; and
- general economic, industry and market conditions and those conditions specific to our business.

For these reasons and because the market for our services and products is relatively new and rapidly changing, it is difficult to predict our future financial results.

If the model of selling vehicles through dealerships in North America changes dramatically, our revenue could be impacted.

Generally, most vehicles in North America are sold through franchised new car dealerships. These dealerships have a strong profit motive and are historically very good at selling accessories and other products. Going forward, if the dealership model were to change in the form of fewer franchised dealerships, or the possibility of manufacturer owned distribution, the prospects in this channel may diminish. Manufacturer-owned sales of new cars might become harder to penetrate or more streamlined with fewer opportunities to sell accessories. This would make us more reliant on our independent installer, retail-oriented channel, which would require more internal efforts and financial resources to create consumer awareness.

If ride-sharing or alternate forms of vehicle ownership gain in popularity, our revenue could be impacted.

If ride-sharing or alternate forms of vehicle ownership including rental, ride-sharing, or peer-to-peer car sharing gain in popularity, consumers may own fewer vehicles per household, which would reduce our revenue. More vehicles entering a ride-sharing or car-sharing fleet could have an uncertain impact on our revenue as consumers could be less interested in accessorizing vehicles they own that are in the ride-sharing fleet.

Technology could render the need for some of our products obsolete.

We derive the majority of our revenue from surface and paint protection films, with the majority of products applied on painted surfaces of vehicles. If automotive paint technology were to improve substantially, such that newer paint did not chip, scratch and was generally not as susceptible to damage, or vehicles were manufactured in a way that no longer required painted surfaces, our revenue could be adversely impacted.

If paint were replaced with other technologies such as film-based products at the point of manufacture, or if machined-based application of paint protection film was developed, the need for paint protection film or the labor services provided by our sales and distribution channels could be reduced.

We create patterns for our DAP platform through a combination of technology and skilled labor. If technology for pattern creation were improved or if paint protection film properties fundamentally changed, our proprietary patterns could become more widely available, and our business could be negatively impacted.

Similarly, our automotive and architectural window films could be impacted by changes or enhancements from automotive manufacturers or window manufacturers that would reduce the need for our products.

Infringement of our intellectual property could impact our ability to compete effectively.

Our intellectual property, particularly our patterns, is susceptible to being copied without our authorization. We maintain an aggressive approach to defending our intellectual property. If we are unable to adequately protect our intellectual property or if our patterns become widely available without our permission, our revenue could be impacted.

Strategic Risks

If changes to our existing products or introduction of new products or services do not meet our customers' expectations or fail to generate revenue, we could lose our customers or fail to generate any revenue from such products or services and our business may be harmed.

We may introduce significant changes to our existing products or develop and introduce new and unproven products or services, including using products with which we have little or no prior development or operating experience. The trend of the automotive industry towards autonomous vehicles and car- and ride-sharing services may result in a rapid increase of new and untested products in the aftermarket automotive industry. If new or enhanced products fail to attract or retain customers or to generate sufficient revenue, operating margin, or other value to justify certain investments, our business may be adversely affected. If we are not successful with new approaches to monetization, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs.

We depend on our relationships with independent installers and new car dealerships and their ability to sell and service our products. Any disruption in these relationships could harm our sales.

The largest portion of our products are distributed through independent installers and new car dealerships. We do not have direct control over the management or the business of these independent installers and new car dealerships, except indirectly through terms as negotiated with us. Should the terms of doing business with them change, our business may be disrupted, which could have an adverse effect on our business, financial condition, results of operations and cash flows.

Because some of our independent installer and new car dealership customers also may offer our competitors' products, our competitors may incent such customers to favor their products. We do not have long-term contracts with a majority of these independent installers and new car dealerships, and these customers are not obligated to purchase specified amounts of our products but instead buy from us on a purchase order basis. Consequently, the independent installers and new car dealerships may terminate their relationships with us or materially reduce their purchases of our products with little or no notice. If we were to lose any significant independent installers or new car dealerships, for any reason, including if an independent installer and new car dealership acquired or were acquired by a competitor such that they became a direct competitor, then we would need to obtain one or more new independent installers or new car dealerships to cover the particular location or product line, which may not be possible on favorable terms or at all.

We may not be able to identify, finance and complete suitable acquisitions and investments, and any completed acquisitions and investments could be unsuccessful or consume significant resources.

Our business strategy is expected to continue to include acquiring businesses and making investments that complement our existing business. We expect to analyze and evaluate the acquisition of strategic businesses or product lines with the potential to strengthen our industry position or enhance our existing set of product and service offerings. We may not be able to identify suitable acquisition candidates, obtain financing or have sufficient cash necessary for acquisitions or successfully complete acquisitions in the future. Acquisitions and investments may involve significant cash expenditures, debt issuance, equity issuance, operating losses and expenses. Acquisitions involve numerous other risks, including:

- diversion of management time and attention from daily operations;
- difficulties integrating acquired businesses, technologies and personnel into our business;
- difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- inability to obtain required regulatory approvals;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of ours;
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies; and
- dilution of interests of holders of our common stock through the issuance of equity securities or equity-linked securities.

If we are unable to maintain our network of sales and distribution channels, it could adversely affect our net sales, profitability and the implementation of our growth strategy.

Our ability to continue to grow our business depends on our ability to maintain effective sales and distribution channels in each of the markets in which we operate. We make use of a variety of distribution channels, including independent installers, new car dealerships, distributors and franchisees. We believe that this network of distribution channels enables us to efficiently reach consumers at a variety of points of sale. If we are not able to maintain our sales and distribution channels, we could experience a decline in sales, as well as reduced market share, as consumers may decide to purchase competing products that are more easily obtainable. The failure to deliver our products in accordance with our delivery schedules could harm our relationships with independent installers and new car dealerships, distributors and franchisees, which could adversely affect our net sales, profitability and the implementation of our growth strategy.

If we are unable to retain and acquire new customers, our financial performance may be materially and adversely affected.

Our financial performance and operations are dependent on retaining our current customers and acquiring new customers. A number of factors could negatively affect our customer retention or acquisition. For example, potential customers may request products or services that we currently do not provide and may be unwilling to wait until we can develop or source such additional products or services.

Other factors that affect our ability to retain or acquire new customers include customers' increasing use of competing products or services, our failure to develop and introduce new and improved products or new products or services not achieving a high level of market acceptance, changes in customer preference or customer sentiment about the quality or usefulness of our products and services, including customer service, consolidation or vertical integration of our customers, adverse changes in our products mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees, and technical or other problems preventing us from delivering our products in a rapid and reliable manner.

If we are unable to retain and acquire new customers, our financial performance may be materially and adversely affected.

We are exposed to political, regulatory, economic and other risks that arise from operating a multinational business.

Sales outside of the U.S. for the year ended December 31, 2023 accounted for approximately 43% of our consolidated revenue. Accordingly, our business is subject to the political, regulatory, economic and other risks that are inherent in operating in numerous countries. These risks include:

- changes in general economic and political conditions in countries where we operate, particularly in emerging markets;
- relatively more severe economic conditions in some international markets than in the U.S.;
- the difficulty of enforcing agreements and collecting receivables through non-U.S. legal systems;
- the difficulty of communicating and monitoring standards and directives across our global facilities;
- the imposition of trade protection measures and import or export licensing requirements, restrictions, tariffs or exchange controls;
- the possibility of terrorist action affecting us or our operations;
- the threat of nationalization and expropriation;
- difficulty in staffing and managing widespread operations in non-U.S. labor markets;
- changes in tax treaties, laws or rulings that could have a material adverse impact on our effective tax rate;
- limitations on repatriation of earnings;
- the difficulty of protecting intellectual property in non-U.S. countries; and
- changes in and required compliance with a variety of non-U.S. laws and regulations.

While Russia's invasion of Ukraine and the Israel-Hamas conflict have not had a material direct impact on our business, and our related direct exposure is limited, the nature and degree of the effects of these conflicts, as well as the other effects of the current business environment over time remain uncertain. Our success depends in part on our ability to anticipate and effectively manage these and other risks. We cannot assure you that these and other factors will not have a material adverse effect on our international operations or on our business as a whole.

Volatility in currency exchange rates could have a material adverse effect on our financial condition, results of operations and cash flows.

Our financial statements reflect translation of items denominated in non-U.S. currencies to U.S. dollars. Therefore, if the U.S. dollar strengthens in relation to the principal non-U.S. currencies from which we derive revenue as compared to a prior period, our U.S. dollar-reported revenue and income will effectively be decreased to the extent of the change in currency valuations and vice-versa. Fluctuations in foreign currency exchange rates, most notably the strengthening of the U.S. dollar against other various foreign currencies in markets where we operate, could continue to have a material adverse effect on our reported revenue in future periods. In addition, currency variations could have a material adverse effect on margins on sales of our products in countries outside of the U.S.

If we fail to manage our growth effectively, our business, financial condition and results of operations may suffer.

We have experienced rapid growth over the last several years and we believe we will continue to grow at a rapid pace. This growth has put significant demands on our processes, systems and personnel. We have made and we expect to make further investments in additional personnel, systems and internal control processes to help manage our growth. In addition, we have sought to, and may continue to seek to grow through strategic acquisitions. Our growth strategy may place significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. Growth could strain our ability to develop and improve our operational, financial and management controls, enhance our reporting systems and procedures, recruit, train and retain highly skilled personnel, maintain our quality standards and maintain our customer satisfaction.

Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows or if we are unable to successfully manage and support our rapid growth and the challenges and difficulties associated with managing a larger, more complex business, this could cause a material adverse effect on our business, financial position, results of operations and cash flows, and the market value of our shares could also decline.

Legal, Regulatory and Compliance Risks

We may incur material losses and costs as a result of product liability and warranty claims.

The Company faces an inherent risk of exposure to product liability claims if the use of its products results, or is alleged to result, in personal injury and/or property damage. If the Company manufactures a defective product, it may experience material product liability losses. Whether or not its products are defective, the Company may incur significant costs to defend product liability claims. It also could incur significant costs in correcting any defects, lose sales and suffer damage to its reputation. Product liability insurance coverage may not be adequate for the liabilities and may not continue to be available on acceptable terms.

The Company is also subject to product warranty claims in the ordinary course of business. If the Company sells poor-quality products or uses defective materials, the Company may incur unforeseen costs in excess of what it has reserved in its financial statements. These costs could have a material adverse effect on the Company's business, financial condition, operating cash flows and ability to make required debt payments.

We sell our products under limited warranties. We have established a liability reserve under these warranties based on a review of historical warranty claims. Our liability reserve for warranties as of the year ended December 31, 2023 was $0.4 million. The warranty reserve may not be sufficient to cover the costs associated with future warranty claims. A significant increase in these costs could adversely affect the Company's operating results for future periods in which these additional costs materialize. Warranty reserves may need to be adjusted from time to time in the future if actual warranty claim experience differs from estimates. Any of the foregoing matters could have a material adverse effect on the Company's business, financial condition, operating cash flows and ability to make required debt payments.

Violations of the U.S. Foreign Corrupt Practices Act and similar anti-corruption laws outside the U.S. could have a material adverse effect on us.

The Foreign Corrupt Practices Act, or FCPA, and similar anti-corruption laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity, with more frequent and aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that are recognized as having governmental and commercial corruption and in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We cannot assure you that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may require self-disclosure to governmental agencies and result in criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

Our failure to satisfy international trade compliance regulations, and changes in U.S. government sanctions, could have a material adverse effect on us.

Our global operations require importing and exporting goods and technology across international borders on a regular basis. Our policy mandates strict compliance with U.S. and non-U.S. trade laws applicable to our products. Nonetheless, our policies and procedures may not always protect us from actions that would violate U.S. or non-U.S. laws. Any improper actions could subject us to civil or criminal penalties, including material monetary fines, or other adverse actions including denial of import or export privileges, and could damage our reputation and business prospects.

Changes in U.S. administrative policy, including changes to existing trade agreements and any resulting changes in international relations, could adversely affect our financial performance.

As a result of changes to U.S. administrative policy, among other possible changes, there may be (i) changes to existing trade agreements; (ii) greater restrictions on free trade generally; and (iii) significant increases in tariffs on goods imported into the United States. It remains unclear what the U.S. administration or foreign governments, including China, will or will not do with respect to tariffs, the U.S.MCA or other international trade agreements and policies. A trade war, other governmental action related to tariffs or international trade agreements, changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently manufacture and sell products or any resulting negative sentiments towards the United States could adversely affect our business, financial condition, operating results and cash flows.

Changes in the United Kingdom's economic and other relationships with the European Union could adversely affect us.

We have significant operations in both the European Union and the United Kingdom. In the year ended December 31, 2023, our European Union and United Kingdom sales totaled $34.9 million and $13.4 million, respectively. Expressed as a percentage of total consolidated revenue for the year ended December 31, 2023, these figures represented 8.8% and 3.4%, respectively. If modifications to existing terms of the existing trade agreement between the United Kingdom and the European Union were to occur, the changes could negatively impact our competitive position, supplier and customer relationships and financial performance.

Intellectual property challenges may hinder our ability to develop and market our products, and we may incur significant costs in our efforts to successfully avoid, manage, defend and litigate intellectual property matters.

Proprietary technologies, customer relationships, trademarks, trade names and brand names are important to our business. Intellectual property protection, however, may not preclude competitors from developing products similar to ours or from challenging our names or products. Further, as we expand on a multi-national level and in some jurisdictions where the protection of intellectual property rights is less robust, the risk of competitors duplicating our proprietary technologies increases. We may need to spend significant resources monitoring our intellectual property rights, and we may or may not be able to detect infringement by third parties. Assertions by or against us relating to intellectual property rights, and any inability to protect these rights, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may face design limitations or liability associated with the use of products for which patent ownership or other intellectual property rights are claimed.

From time to time, we are subject to claims or inquiries regarding alleged unauthorized use of a third party's intellectual property and cannot be certain that the conduct of our business does not and will not infringe the intellectual property rights of others. An adverse outcome in any intellectual property litigation could subject us to significant liabilities to third parties, require us to license technology or other intellectual property rights from others, require us to comply with injunctions to cease marketing or using certain products or brands, or require us to redesign, re-engineer, or re-brand certain products or packaging, any of which could affect our business, financial condition and operating results. Third-party intellectual property rights may also make it more difficult or expensive for us to meet market demand for particular product or design innovations. If we are required to seek licenses under patents or other intellectual property rights of others, we may not be able to acquire these licenses on acceptable terms, if at all. In addition, the cost of responding to an intellectual property infringement claim, in terms of legal fees and expenses and the diversion of management resources, whether or not the claim is valid, could have a material adverse effect on our business, results of operations and financial condition.

Failure, inadequacy, or breach of our information technology systems, infrastructure, and business information or violations of data protection laws could result in material harm to our business and reputation.

A great deal of confidential information owned by us is stored in our information systems, networks, and facilities or those of third parties. This includes valuable trade secrets and intellectual property, corporate strategic plans, marketing plans, customer information, and personally identifiable information, such as employee information (collectively, "confidential information"). We also rely to a large extent on the efficient and uninterrupted operation of complex information technology systems, infrastructure, and hardware (together "IT systems"), some of which are within our control and some of which are within the control of third parties, to accumulate, process, store, and transmit large amounts of confidential information and other data. We are subject to a variety of continuously evolving and developing laws and regulations around the world related to privacy, data protection, and data security. Maintaining the confidentiality, integrity and availability of our IT systems and confidential information is vital to our business.

IT systems are vulnerable to system inadequacies, operating failures, service interruptions or failures, security breaches, malicious intrusions, or cyber-attacks from a variety of sources. Cyber-attacks are growing in their frequency, sophistication, and intensity, and are becoming increasingly difficult to detect, mitigate, or prevent. Cyber-attacks come in many forms, including the deployment of harmful malware, exploitation of vulnerabilities, denial-of-service attacks, the use of social engineering, and other means to compromise the confidentiality, integrity and availability of our IT systems, confidential information, and other data. Breaches resulting in the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information, or the unauthorized access to, disruption of, or interference with our products and services, can occur in a variety of ways, including but not limited to, negligent or wrongful conduct by employees or others with permitted access to our systems and information, or wrongful conduct by hackers, competitors, certain governments, or other current or former company personnel.

The failure or inadequacy of our IT systems, the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information, or the unauthorized access to, disruption of, or interference with our products and services that rely on IT systems, could impair our ability to secure and maintain intellectual property rights; result in a product manufacturing interruption or failure, or in the interruption or failure of products or services that rely on IT systems; damage our operations, customer relationships, or reputation; and cause us to lose trade secrets or other competitive advantages. Unauthorized disclosure of personally identifiable information could expose us to significant sanctions for violations of data privacy laws and regulations around the world and could damage public trust in our company. For example, the GDPR requires companies to meet new requirements regarding the handling of personal data, including its use, protection and transfer and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet the GDPR requirements could result in penalties of up to 40% of annual worldwide revenue. The GDPR also confers a private right of action on certain individuals and associations. In addition, the CPRA became effective in January 2020 and has similar requirements to the GDPR.

To date, system inadequacies, operating failures, unauthorized access, service interruptions or failures, security breaches, malicious intrusions, cyber-attacks, and the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information have not had a material impact on our consolidated results of operations. We continue to implement measures in an effort to protect, detect, respond to, and minimize or prevent these risks and to enhance the resiliency of our IT systems; however, these measures may not be successful. If they are not successful, any of these events could result in material financial, legal, business, or reputational harm to our business.

Liquidity Risks

We may seek to incur substantially more indebtedness in the future.

Our degree of leverage could have important consequences for the holders of our Common Stock, including increasing our vulnerability to general economic and industry conditions; requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities; restricting us from making strategic acquisitions or causing us to make non-strategic divestitures, limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged. Any of the above consequences could result in a material adverse effect on our business, financial condition and results of operations.

Our ability to service our indebtedness will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing or delaying capital expenditures, acquisitions and/or selling assets, restructuring or refinancing our indebtedness or seeking additional debt or equity capital or bankruptcy protection. We may not be able to affect any of these remedies on satisfactory terms or at all.

A breach of the terms and conditions of our credit facilities, including the inability to comply with the required financial covenants, could result in an event of default. If an event of default occurs (after any applicable notice and cure periods), the lenders would be entitled to terminate any commitment to make further extensions of credit under our credit facility and to accelerate the repayment of amounts outstanding (including accrued and unpaid interest and fees). Upon a default under our credit facilities, the lenders could also foreclose against any collateral securing such obligations, which may be all or substantially all of our assets. If that occurred, we may not be able to continue to operate as a going concern.

We cannot be certain that additional financing will be available on reasonable terms when required, or at all.

From time to time, we may need additional financing. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. To the extent we draw on credit facilities, if any, to fund certain obligations, we may need to raise additional funds and we cannot assure investors that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Common Stock, and existing stockholders may experience dilution.

Our variable rate indebtedness exposes us to interest rate volatility, which could cause our debt service obligations to increase significantly.

Borrowings under our credit facilities are at variable rates of interest and expose us to interest rate volatility. As interest rates increase, our debt service obligations on certain of our variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease.

Risks Relating to Common Stock

If research analysts issue unfavorable commentary or downgrade our Common Stock, the price of our Common Stock and its trading volume could decline.

The trading market for our Common Stock may depend in part on the research and reports that research analysts publish about us and our business. If we do not maintain adequate research coverage, or if one or more analysts who covers us downgrades our Common Stock or publishes inaccurate or unfavorable research about our business, the price of our Common Stock could decline. If one or more of the research analysts ceases to cover us or fails to publish reports on us regularly, demand for our Common Stock could decrease, which could cause the price or trading volume to decline.

Our stock price has been, and may continue to be, volatile.

The trading price of our Common Stock has been and could continue to be subject to wide fluctuations in response to certain factors, including:

- U.S. and global economic conditions leading to general declines in market capitalizations, with such declines not associated with operating performance.
- Quarter-to-quarter variations in results of operations.
- Our announcements of new products.
- Our announcements of acquisitions or divestitures.
- Our announcements of significant new customers or contracts.
- Our competitors' announcements of new products.
- Our product development.
- Changes in our management team.
- General conditions in our industry.
- Investor perceptions and expectations regarding our products, services, plans and strategic position and those of our competitors and clients.

In addition, the public stock markets experience extreme price and trading volume volatility, particularly in growth sectors of the market. This volatility has significantly affected the market prices of securities of many companies for reasons often unrelated to the operating performance of the specific companies. The broad market fluctuations may adversely affect the market price of our Common Stock.

We may issue additional equity securities or engage in other transactions that could dilute our book value or affect the priority of our Common Stock, which may adversely affect the market price of our Common Stock.

Our articles of incorporation allow our Board to issue up to 100,000,000 shares of Common Stock. Our Board may determine from time to time that we need to raise additional capital by issuing Common Stock or other equity securities. Except as otherwise described in this Annual Report, we are not restricted from issuing additional securities, including securities that are convertible into or exchangeable for, or that represent the right to receive, shares of our Common Stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future offerings, or the prices at which such offerings may be affected. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our Common Stock, or both. Holders of our Common Stock are not entitled to preemptive rights or other protections against dilution. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, the then-current holders of our Common Stock. Additionally, if we raise additional capital by making offerings of debt or shares of preferred stock, upon our liquidation, holders of our debt securities and shares of preferred stock, and lenders with respect to other borrowings, may receive distributions of our available assets before the holders of our Common Stock.

We may issue shares of preferred stock with greater rights than our Common Stock.

Subject to the rules of The Nasdaq Stock Market, our articles of incorporation authorize our Board to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from holders of our Common Stock. Any preferred stock that is issued may rank ahead of our Common Stock in terms of dividends, priority and liquidation premiums and may have greater voting rights than our Common Stock.

We have not paid any cash dividends in the past and have no plans to issue cash dividends in the future, which could cause our Common Stock to have a lower value than that of similar companies which do pay cash dividends.

We have not paid any cash dividends on our Common Stock to date and do not anticipate any cash dividends being paid to holders of our Common Stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board.

While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion. As we have no plans to issue cash dividends in the future, our Common Stock could be less desirable to other investors and as a result, the value of our Common Stock may decline, or fail to reach the valuations of other similarly situated companies that pay cash dividends.

Shares eligible for future sale may depress our stock price.

As of February 28, 2024, we had 27,631,097 shares of Common Stock outstanding of which 2,616,697 shares were held by affiliates. All of the shares of Common Stock held by affiliates are restricted or controlled securities under Rule 144 promulgated under the Securities Act of 1933 as amended (the “Securities Act”). Sales of shares of Common Stock under Rule 144 or another exemption under the Securities Act or pursuant to a registration statement could have a material adverse effect on the price of our Common Stock and could impair our ability to raise additional capital through the sale of equity securities. Furthermore, all Common Stock beneficially owned by persons who are not our affiliates and have beneficially owned such shares for at least one year may be sold at any time by these existing stockholders in accordance with Rule 144 of the Securities Act. However, there can be no assurance that any of these existing stockholders will sell any or all of their Common Stock and there may be a lack of supply of, or demand for, our Common Stock on The Nasdaq Stock Market. In the case of a lack of supply of our Common Stock offered in the market, the trading price of our Common Stock may rise to an unsustainable level, particularly in instances where institutional investors may be discouraged from purchasing our Common Stock because they are unable to purchase a block of our Common Stock in the open market due to a potential unwillingness of our existing stockholders to sell the amount of Common Stock at the price offered by such investors and the greater influence individual investors have in setting the trading price. In the case of a lack of market demand for our Common Stock, the trading price of our Common Stock could decline significantly and rapidly after our listing.

Your percentage of ownership in our Common Stock may be diluted in the future.

In the future, the percentage ownership in our Common Stock owned by our stockholders may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we expect to be granting to our directors, officers and employees. Such issuances may have a dilutive effect on our earnings per share, which could materially adversely affect the market price of our Common Stock.

Anti-takeover provisions could make a third-party acquisition of us difficult.

Our bylaws eliminate the ability of stockholders to call special meetings or take action by written consent. These provisions in our bylaws could make it more difficult for a third party to acquire us without the approval of our board. In addition, the Nevada corporate statute also contains certain provisions that could make an acquisition by a third party more difficult.

Our directors and officers have substantial control over us.

Our directors and executive officers, together with their affiliates and related persons, beneficially owned, in the aggregate, approximately 9.5% of our outstanding Common Stock as of February 28, 2024. These stockholders have the ability to substantially control our operations and direct our policies including the outcome of matters submitted to our stockholders for approval, such as the election of directors and any acquisition or merger, consolidation or sale of all or substantially all of our assets.

Our bylaws provide that the state and federal courts located in Bexar County, Texas will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our bylaws provide that, with certain limited exceptions, unless we consent in writing to the selection of an alternative forum, the state and federal courts located in Bexar County, Texas will be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring any (i) derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of, or a claim based on, breach of a fiduciary duty owed by any current or former director, officer, employee or stockholder to us or our stockholders, (iii) any action asserting a claim against us or any current or former director, officer, employee or stockholder arising pursuant to any provision of Chapters 78 and 92 of the Nevada Revised Statutes or our articles of incorporation or bylaws or (iv) any action asserting a claim against us or any current or former director, officer, employee or stockholder (including any beneficial owner of stock) governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in our Common Stock is deemed to have notice of and consented to the foregoing provisions. This choice of forum provision may limit a stockholder's ability to bring claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations. The choice of forum provision does not apply to any actions arising under the Securities Act or the Securities Exchange Act.

General Risk Factors

General global economic and business conditions affect demand for our products.

We compete in various geographic regions and markets around the world. We expect to experience fluctuations in revenue and results of operations due to economic and business cycles. Important factors for our business and the businesses of our customers include the overall strength of the economy and our customers' confidence in the economy, unemployment rates, availability of consumer financing and interest rates. Our products and services are discretionary purchases for most consumers. Consumers are generally more willing to make discretionary purchases on products and services such as ours during periods of favorable general economic conditions. While we attempt to minimize our exposure to economic or market fluctuations by offering a balanced mix of end markets and geographic regions, any of the above factors, individually or in the aggregate, or a significant or sustained downturn in a specific end market or geographic region could reduce demand for our products and services, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A public health crisis could impact our business

A public health crisis, including a pandemic, similar in nature to the coronavirus disease, could impact all geographic regions where we sell or produce products, creating business disruptions that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Economic, political and market conditions can adversely affect our business, financial condition and results of operations.

Macroeconomic developments, such as the impact of the Russo-Ukrainian war, Israeli-Hamas conflict, elevated inflation, higher interest rates, restrictive trade policies or the occurrence of events that lead to uncertainty or instability in economic, political or market conditions, could have a material adverse effect on our business, financial condition and results of operations. Political issues and conflicts could have a material adverse effect on our results of operations and financial condition if they affect geographies in which we do business or obtain our materials or components. Wars or conflicts could have a significant adverse impact on regional or global macroeconomic conditions, give rise to regional instability or result in heightened economic tariffs, sanctions and import-export restrictions that may cause material business interruptions or restrict our ability to conduct business with certain suppliers.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

The Company maintains a cyber risk management program designed to identify, assess, manage, mitigate, and respond to cybersecurity threats. This program is integrated within the Company's enterprise risk management system and addresses all aspects of the corporate information technology environment.

The underlying controls of the cyber risk management program are based on recognized best practices and standards for cybersecurity and information technology, including those set forth in the International Organization Standardization ("ISO") 27001 standard. The Company has an annual assessment, performed by a third party, of the Company's cyber risk management program against this standard.

The Company employs a third-party organization to conduct 24/7 monitoring of its global cybersecurity environment and to coordinate the investigation and remediation of alerts. A program for staging incident response drills is in place to prepare support teams in the event of a significant incident.

External partners are a key part of the Company's cybersecurity infrastructure. XPEL partners with leading cybersecurity companies and organizations, leveraging third-party technology and expertise to control and monitor our processes.

The Director of Enterprise Systems leads the Company's cybersecurity program. The Director of Enterprise Systems assesses and manages XPEL's cyber risk management program, informs senior management regarding the prevention, detection, mitigation, and remediation of cybersecurity incidents and supervises such efforts. The Director of Enterprise manages the third service party service provider engaged to monitor the Company's cybersecurity environment and is regularly updated by the third party service providers on the cybersecurity activities. The Directory of Enterprise Systems has 21 years of experience in information technology and is supported by a team with additional relevant experience and related certifications.

The Audit Committee of the Board oversees XPEL's cybersecurity risk exposures and the steps taken by management to monitor and mitigate cybersecurity risks. The Director of Enterprise Systems briefs the Audit Committee on the effectiveness of the Company's cyber risk management program, typically on a quarterly basis.

XPEL faces risks from cybersecurity threats that could have a material adverse effect on its business, financial condition, results of operations, cash flows or reputation. The Company has experienced, and will continue to experience, cyber incidents in the normal course of its business. However, prior cybersecurity incidents have not had a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

Item 2. Properties

Our principal office is located in leased premises in San Antonio, Texas. Our operations are conducted in facilities throughout North America, Europe, Asia and Australia. These facilities house production, distribution and operations, installation services, sales and marketing, and administrative functions. A summary of our principal facilities as of December 31, 2023 is set forth in the chart below.

Country or Region	Installation and Sales Locations	Warehouse Locations	Administrative, Training, and Other Locations	Leased Square Footage
United States	10	3	1	291,900
Continental Europe	3	1	2	88,451
Canada	10	3	1	73,506
Mexico	1	1	—	13,659
United Kingdom	1	1	—	14,835
Asia Pacific	2	1	—	20,484

We believe that our facilities are suitable for their purpose and are sufficient to support our current business needs.

Item 3. Legal Proceedings

From time to time, we are made parties to actions filed or have been given notice of potential claims relating to the ordinary conduct of our business, including those pertaining to commercial disputes, product liability, patent infringement and employment matters.

While we believe that a material impact on our financial position, results of operations or cash flows from any such future claims or potential claims is unlikely, given the inherent uncertainty of litigation, it is possible that an unforeseen future adverse ruling or unfavorable development could result in future charges that could have a material adverse impact. We do and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and receivables and make appropriate adjustments to such estimates based on experience and developments in litigation. As a result, the current estimates of the potential impact on our financial position, results of operations and cash flows for the proceedings and claims described in the notes to our consolidated financial statements could change in the future.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company’s Common Stock is traded on The Nasdaq Stock Market LLC under the symbol “XPEL”.

Holders

As of February 28, 2024, there were 11 stockholders of record. This number of stockholders does not include shares held in “street name.”

Dividend Policy

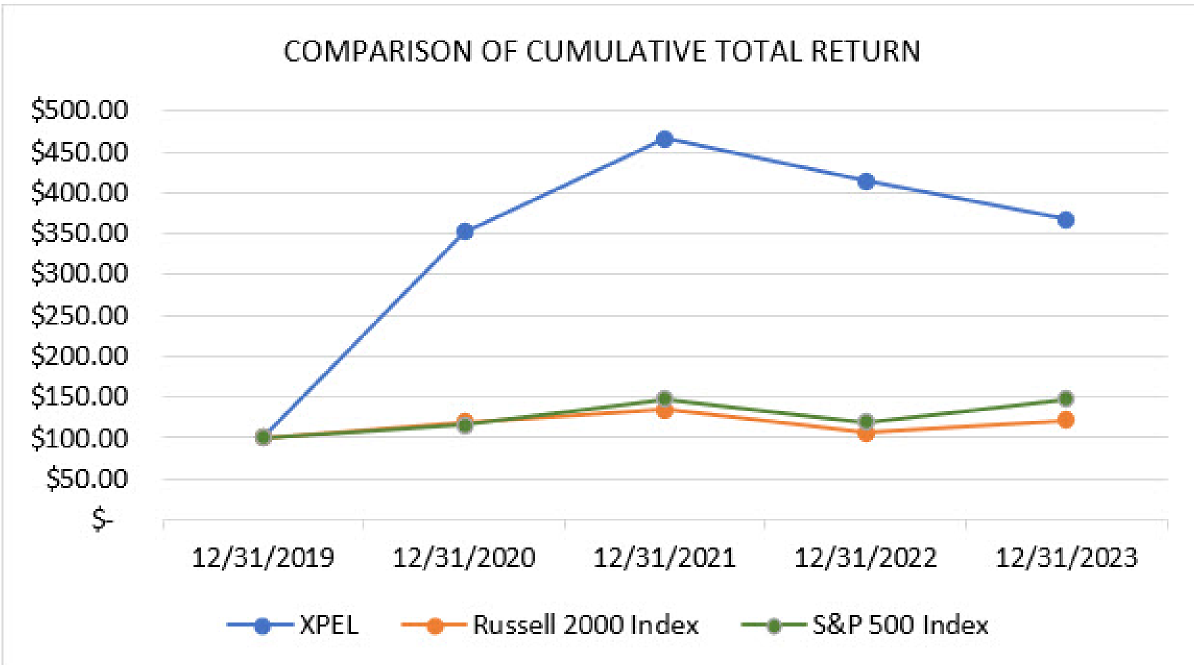
Holders of our Common Stock are entitled to receive such dividends as declared by our Board. No dividends have been paid with respect to our Common Stock and no dividends are anticipated to be paid in the foreseeable future. Any future decisions as to payment of dividends will be at the discretion of our Board, subject to applicable law.

Stock Performance

The information contained in the following graph shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference in such filing.

The following data and graph show a comparison of the cumulative total stockholder return for XPEL’s common stock, the Russell 2000 Index and the S&P 500 Index from December 31, 2019 through December 31, 2023. The data assumes a hypothetical investment of $100 on July 19, 2019 in our common stock and each of the indices, and reinvestment of any dividends. The historical stock performance presented below is not intended to and may not be indicative of future stock performance.

We have chosen to use the Russell 2000 Index rather than an industry or line-business index because we do not believe our company is comparable to companies in a particular industry or line-of-business such as after-market automotive or consumer discretionary product companies and we have not used a peer group of companies because our major competitors are either much larger than we are and their competitive products constitute small lines of business for these companies or other competitors are private companies.



Purchases of Equity Securities

In the year ended December 31, 2023 we did not repurchase any shares of our Common Stock.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

Set forth below is summary financial information for the years ended December 31, 2023, 2022, and 2021. This information is not necessarily indicative of results of future operations, and should be read in conjunction with Part I, Item 1A, "Risk Factors," Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and accompanying notes thereto included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report to fully understand factors that may affect the comparability of the information presented below (dollars in thousands).

	Year Ended December 31,						% Change	
	2023	% of Total Revenue	2022	% of Total Revenue	2021	% of Total Revenue	2023 vs. 2022	2022 vs. 2021
Total Revenue	$ 396,293	100.0 %	$ 323,993	100.0 %	$ 259,263	100.0 %	22.3 %	25.0 %
Total Cost of Sales	233,879	59.0 %	196,481	60.6 %	166,586	64.3 %	19.0 %	17.9 %
Gross Margin	162,414	41.0 %	127,512	39.4 %	92,677	35.7 %	27.4 %	37.6 %
Total Operating Expenses	95,442	24.1 %	73,575	22.7 %	52,561	20.3 %	29.7 %	40.0 %
Operating Income	66,972	16.9 %	53,937	16.6 %	40,116	15.5 %	24.2 %	34.5 %
Other Expenses	941	0.2 %	1,972	0.6 %	676	0.3 %	(52.3)%	191.7 %
Income Tax	13,231	3.3 %	10,584	3.3 %	7,873	3.0 %	25.0 %	34.4 %
Net Income	$ 52,800	13.3 %	$ 41,381	12.8 %	$ 31,567	12.2 %	27.6 %	31.1 %

Company Overview

The Company is a leading provider of protective films and coatings, including automotive paint protection film, surface protection film, automotive and commercial/residential window films, and ceramic coatings with a global footprint, a network of trained installers and proprietary DAP software. The Company is dedicated to exceeding customer expectations by providing high-quality products, leading customer service, expert technical support and world-class training.

Key Business Metric - Non-GAAP Financial Measures

Our management regularly monitors certain financial measures to track the progress of our business against internal goals and targets. We believe that the most important measure to the Company is Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA").

EBITDA is a non-GAAP financial measure. We believe EBITDA provides helpful information with respect to our operating performance as viewed by management, including a view of our business that is not dependent on (i) the impact of our capitalization structure and (ii) items that are not part of our day-to-day operations. Management uses EBITDA (1) to compare our operating performance on a consistent basis, (2) to calculate incentive compensation for our employees, (3) for planning purposes including the preparation of our internal annual operating budget, (4) to evaluate the performance and effectiveness of our operational strategies, and (5) to assess compliance with various metrics associated with the agreements governing our indebtedness. Accordingly, we believe that EBITDA provides useful information in understanding and evaluating our operating performance in the same manner as management. We define EBITDA as net income plus (a) total depreciation and amortization, (b) interest expense, net, and (c) income tax expense.

The following table is a reconciliation of Net Income to EBITDA for the years ended December 31, 2023, 2022, and 2021 (dollars in thousands):

	2023	% of Total Revenue	2022	% of Total Revenue	2021	% of Total Revenue
Net Income	$ 52,800	13.3 %	$ 41,381	12.8 %	$ 31,567	12.2 %
Interest	1,248	0.3 %	1,410	0.4 %	303	0.1 %
Taxes	13,231	3.3 %	10,584	3.3 %	7,873	3.0 %
Depreciation	4,534	1.1 %	3,433	1.1 %	1,887	0.7 %
Amortization	5,059	1.3 %	4,401	1.4 %	2,501	1.0 %
EBITDA	$ 76,872	19.4 %	$ 61,209	18.9 %	$ 44,131	17.0 %

Use of Non-GAAP Financial Measures

EBITDA should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. It is not a measurement of our financial performance under GAAP and should not be considered as alternatives to revenue or net income, as applicable, or any other performance measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other businesses. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our operating results as reported under GAAP.

EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of ongoing operations; and other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

Results of Operations

This section of this Annual Report on Form 10-K generally discusses the years ended December 31, 2023 and 2022 and year-over-year comparisons between those years. Discussions of the periods prior to the year ended December 31, 2022 that are not included in this Annual Report on Form 10-K are found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022 and the discussion therein for the year ended December 31, 2022 compared to the year ended December 31, 2021 is incorporated by reference into this Annual Report.

The following tables summarize revenue results for the years ended December 31, 2023, 2022 and 2021 (dollars in thousands):

	Year Ended December 31,			% Change		% of Total Revenue		
	2023	2022	2021	2023 vs. 2022	2022 vs. 2021	2023	2022	2021
Product Revenue								
Paint protection film	$ 229,880	$ 192,374	$ 169,880	19.5 %	13.2 %	58.0 %	59.4 %	65.5 %
Window film	67,951	54,370	38,363	25.0 %	41.7 %	17.1 %	16.8 %	14.8 %
Other	13,575	11,430	9,040	18.8 %	26.4 %	3.5 %	3.5 %	3.5 %
Total	$ 311,406	$ 258,174	$ 217,283	20.6 %	18.8 %	78.6 %	79.7 %	83.8 %
Service Revenue								
Software	$ 6,518	$ 5,213	$ 4,373	25.0 %	19.2 %	1.6 %	1.6 %	1.7 %
Cutbank credits	17,626	16,317	12,372	8.0 %	31.9 %	4.4 %	5.0 %	4.8 %
Installation labor	58,477	42,828	24,253	36.5 %	76.6 %	14.8 %	13.2 %	9.4 %
Training and other	2,266	1,461	982	55.1 %	48.8 %	0.6 %	0.5 %	0.3 %
Total	$ 84,887	$ 65,819	$ 41,980	29.0 %	56.8 %	21.4 %	20.3 %	16.2 %
Total	$ 396,293	$ 323,993	$ 259,263	22.3 %	25.0 %	100.0 %	100.0 %	100.0 %

Because many of our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following table represents our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors for the years ended December 31, 2023 and 2022 (dollars in thousands):

	Year Ended December 31,		%	% of Total Revenue	
	2023	2022	Increase	2023	2022
United States	$ 224,839	$ 189,890	18.4 %	56.7 %	58.6 %
Canada	43,506	38,997	11.6 %	11.0 %	12.0 %
China	41,576	33,993	22.3 %	10.5 %	10.5 %
Continental Europe	34,883	24,713	41.2 %	8.8 %	7.6 %
Middle East/Africa	16,472	10,499	56.9 %	4.2 %	3.2 %
United Kingdom	13,438	10,298	30.5 %	3.4 %	3.2 %
Asia Pacific	11,943	9,026	32.3 %	3.0 %	2.8 %
Latin America	8,737	5,411	61.5 %	2.2 %	1.7 %
Other	899	1,166	(22.9)%	0.2 %	0.4 %
Total	$ 396,293	$ 323,993	22.3 %	100.0 %	100.0 %

Revenue

Product Revenue. Product revenue increased 20.6% during the year ended December 31, 2023 as compared to 2022 and represented 78.6% of our consolidated 2023 revenue. Within this category, revenue from our paint protection film product line increased 19.5% as compared to the prior year and represented 58.0% of total consolidated revenue for the year ended December 31, 2023. This growth was due mainly to increases in demand for our film products across multiple regions. This increase was driven by both new customer additions and revenue growth in existing customers.

Revenue from our window film product line grew 25.0% in the year ended December 31, 2023 and represented 17.1% of our consolidated annual 2023 revenue. This product line includes both automotive and architectural window film. Automotive window film grew 20.2% to $58.5 million for the year ended December 31, 2023. This increase was due to continued channel focus, increased product adoption in multiple regions and increased demand. Architectural window film revenue increased 65.9% to $9.5 million. This increase was due mainly to increased product awareness and adoption in most of our regions.

Other product revenue for the year ended December 31, 2023 grew 18.8% to $13.6 million and represented 3.5% of total consolidated revenue. This increase was driven by an increase in demand for our non-film related products such as ceramic coating, plotters, chemicals and other film installation tools and accessories. Our FUSION ceramic coating product revenue grew 51.7% to $6.2 million. This increase was driven primarily by increased channel focus and increased demand for our ceramic coating products.

Geographically, we experienced growth in many regions during the year. The U.S. and Canadian markets are our most mature markets. Our continued strong growth in these markets was being driven primarily by increased paint protection film attachment rates. Outside of these more mature markets, our continued strong growth was driven by increased product awareness and adoption.

Service revenue. Service revenue consists of revenue from fees for DAP software access, cutbank credit revenue, which represents the value of pattern access provided with eligible product revenue, revenue from the labor portion of installation sales in our Company-owned installation centers, revenue from our dealership services business, and revenue from training services provided to our customers. During 2023, service revenue grew 29.0% over service revenue for the year ended December 31, 2022.

Within the service revenue category, software revenue increased 25.0% from the year ended December 31, 2022. This increase was due primarily to increases in customers subscribing to our software. Cutbank credit revenue grew 8.0% from the year ended December 31, 2022. This increase was due primarily to the aforementioned increases in demand for our products and services. Installation labor revenue increased 36.5% from the year ended December 31, 2022, due mainly to strong demand across our dealership service and OEM businesses and at our Company-owned installation facilities. Training revenue increased 55.1% from the year ended December 31, 2022 as we continue to grow our global training presence.

Total installation revenue (labor and product combined) at our Company-owned installation centers for the year ended December 31, 2023 increased 36.5% over the year ended December 31, 2022. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased by 19.9% from the year ended December 31, 2022 due mainly to the same factors described previously.

Cost of Sales

Cost of sales consists of product costs and the costs to provide our services. Product costs consist of material costs, certain personnel costs, shipping costs, warranty costs and other costs related to providing products to our customers. Cost of service includes the labor costs associated with installation of product in our Company-owned facilities and across our dealer-service network, costs of labor associated with pattern design for our film-cutting software and the costs incurred to provide training for our customers. Product costs in the year ended December 31, 2023 increased 16.5% over the year ended December 31, 2022 commensurate with the growth in product revenue. Cost of service revenue grew 35.0% during the year ended December 31, 2023. The increase was due primarily to increased labor costs associated with our expanding installation business.

Gross Margin

The following table summarizes gross margin for product and services for the years ended December 31, 2023, 2022 and 2021 (dollars in thousands):

	Year Ended December 31,			% Change		% of Category Revenue		
	2023	2022	2021	2023 vs. 2022	2022 vs. 2021	2023	2022	2021
Product	$ 113,398	$ 88,269	$ 65,997	28.5 %	33.7 %	36.4 %	34.2 %	30.4 %
Service	49,016	39,243	26,680	24.9 %	47.1 %	57.7 %	59.6 %	63.6 %
Total	$ 162,414	$ 127,512	$ 92,677	27.4 %	37.6 %	41.0 %	39.4 %	35.7 %

Product gross margin for the year ended December 31, 2023 increased approximately $25.1 million, or 28.5%, over the year ended December 31, 2022 and represented 36.4% and 34.2% of total product revenue for the years ended December 31, 2023 and 2022, respectively. The increase in product gross margin percentages was primarily due to decreases in product costs, favorable changes in product mix and improved operating leverage.

Service gross margin increased approximately $9.8 million for the year ended December 31, 2023, and represented 57.7% and 59.6% of total service revenue for the years ended December 31, 2023 and 2022, respectively. The decrease in service gross margin percentage was primarily due to a higher percentage of lower margin installation labor revenue relative to other higher margin service revenue components.

Operating Expenses

Sales and marketing expenses for the year ended December 31, 2023 increased 25.3% compared to 2022. These expenses represented 8.0% and 7.8% of consolidated revenue for the years ended December 31, 2023 and 2022, respectively. This increase was due mainly to increased personnel, and additional marketing projects intended to increase awareness of our brand globally.

General and administrative expenses grew approximately $15.4 million, or 32.0%, during the year ended December 31, 2023. These costs represented 16.1% and 14.9% of total consolidated revenue for the years ended December 31, 2023 and 2022, respectively. The increase was due mainly to increases in personnel, occupancy costs, information technology costs, research and development costs and professional fees to support the ongoing growth of the business.

Income Tax Expense

Our provision for income taxes was $13.2 million in the year ended December 31, 2023 as compared to $10.6 million in the year ended December 31, 2022. Our effective income tax rates for the years ended December 31, 2023 and 2022 were 20.0% and 20.4%, respectively. See Note 14 of the Notes to our Consolidated Financial Statements for further information.

Net Income

Net income for the year ended December 31, 2023 increased by 27.6% to $52.8 million compared to the prior year due primarily to continued strong revenue growth and improved margins.

Liquidity and Capital Resources

The primary sources of liquidity for our business are available cash and cash equivalents, cash flows provided by operations, and borrowings under our credit facilities. As of December 31, 2023, we had cash and cash equivalents of $11.6 million, for the year ended December 31, 2023, cash flows provided by operations were $37.4 million, and as of December 31, 2023 we had approximately $109.4 million in funds available under our credit facilities. We expect to continue to have sufficient access to cash to support working capital needs, capital expenditures (including acquisitions), and to pay interest and service debt. We believe we have the ability and sufficient resources to meet these cash requirements by using available cash, internally generated funds and borrowing under committed credit facilities. We are focused on continuing to generate positive operating cash to fund our operational and capital investment initiatives. We believe we have sufficient liquidity to operate for at least the next 12 months from the date of filing this Annual Report.

Operating activities. Cash flows provided by operations totaled approximately $37.4 million for the year ended December 31, 2023, compared to $12.1 million for the year ended December 31, 2022. The increase in operating cash flows for the year ended December 31, 2023 was driven primarily by an increase in operating earnings and a reduction in inventory purchases.

Investing activities. Cash flows used in investing activities totaled approximately $26.4 million during the year ended December 31, 2023 compared to cash use of $14.2 million for the year ended December 31, 2022. This increase in cash used was due mainly to additional cash outlay for acquisitions in 2023.

Financing activities. Cash flows used in financing activities during the year ended December 31, 2023 totaled approximately $7.3 million compared to cash provided by financing activities of $0.6 million in the prior year. This use of cash was due primarily to net repayments on our credit facilities.

Debt obligations, including balances outstanding on committed credit facilities and contingent liabilities, as of December 31, 2023 and December 31, 2022 totaled approximately $19.9 million and $27.0 million, respectively.

Future liquidity and capital resource requirements

We expect to fund ongoing operating expenses, capital expenditures, acquisitions, interest payments, tax payments, credit facility maturities, future lease obligations, and payments for other long-term liabilities with cash flow from operations. In the short-term, we are contractually obligated to make lease payments and make payments on contingent liabilities related to certain completed acquisitions. In the long-term, we are contractually obligated to make lease payments, pay contingent liabilities as they are earned, and repay borrowings on our line of credit. We believe that we have sufficient cash and cash equivalents, as well as borrowing capacity, to cover our estimated short-term and long-term funding needs.

Credit Facilities

The Company has a revolving credit facility providing for secured revolving loans and letters of credit in an aggregate amount of up to $125.0 million, which is subject to the terms of a credit agreement dated April 6, 2023 (the "Credit Agreement"). As of December 31, 2023, the Company had an outstanding balance of $19.0 million under this agreement. As of December 31, 2022, the Company had an outstanding balance of $26.0 million under a prior credit agreement which was subsequently repaid and terminated.

Borrowings under the Credit Agreement bear interest, at XPEL’s option, at a rate equal to either (a) Base Rate or (b) Adjusted Term SOFR. In addition to the applicable interest rate, the Credit Agreement includes a commitment fee ranging from 0.20% to 0.25% per annum for the unused portion of the aggregate commitment and an applicable margin ranging from 0.00% to 0.50% for Base Rate Loans and 1.00% to 1.50% for Adjusted Term SOFR Loans. At December 31, 2023, these rates were 6.5% and 6.4%, respectively. Both the margin applicable to the interest rate and the commitment fee are dependent on XPEL's Consolidated Total Leverage Ratio. The Credit Agreement's maturity date is April 6, 2026. All capitalized terms in this description of the credit facility that are not otherwise defined in this report have the meaning assigned to them in the Credit Agreement.

Obligations under the Credit Agreement are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of XPEL's material property and assets.

The terms of the Credit Agreement include certain affirmative and negative covenants that require, among other things, XPEL to maintain legal existence and remain in good standing, comply with applicable laws, maintain accounting records, deliver financial statements and certifications on a timely basis, pay taxes as required by law, and maintain insurance coverage, as well as to forgo certain specified future activities that might otherwise encumber XPEL and certain customary covenants. The Credit Agreement provides for 2 financial covenants, as follows.

As of the last day of each fiscal quarter:

1. XPEL shall not allow its Consolidated Total Leverage Ratio to exceed 3.50 to 1.00, and
2. XPEL shall not allow its Consolidated Interest Coverage Ratio to be less than 3.00 to 1.00.

XPEL Canada Corp., a wholly-owned subsidiary of XPEL, Inc., also has a CAD $4.5 million revolving credit facility through HSBC Bank Canada. This facility is utilized to fund our working capital needs in Canada. This facility bears interest at HSBC Canada Bank's prime rate plus 0.25% per annum and is guaranteed by the parent company. As of December 31, 2023 and December 31, 2022, no balance was outstanding on this facility.

Critical Accounting Estimates

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with U.S. GAAP. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. We identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

Certain of the most critical estimates that require significant judgment are as follows:

Business Combinations

The accounting for a business combination requires the excess of the purchase price for the acquisition over the net book value of assets acquired to be allocated to the identifiable assets of the acquired entity. Any unallocated portion is recognized as goodwill. We engaged an independent third-party valuation specialist to assist with the fair value allocation of the purchase price paid for our various acquisitions to intangible assets. This required the use of several estimates and assumptions including the customer attrition rate, forecasted cash flows attributable to existing customers, the discount rate for the customer relationship intangible asset and future royalties, contributory asset charges, and forecasted revenue growth rates. Although we believe the assumptions and estimates made were reasonable and appropriate, these estimates require judgment and are based in part on historical experience and information obtained from the management of the acquired entities.

Inventory Valuation

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis. We record inventory write-downs for scrap and excess or obsolete inventories based on assumptions about historical demand calculations, forecasted usage, estimated customer requirements and product line updates. These assumptions are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future.

Recently Adopted Accounting Pronouncements and Accounting Pronouncements Not Yet Adopted

Refer to Note 1 to the Consolidated Financial Statements for discussion of recently adopted accounting standards and accounting standards not yet adopted.

Related Party Relationships

There are no family relationships between or among any of our directors or executive officers. There are no arrangements or understandings between any two or more of our directors or executive officers, and there is no arrangement, plan or understanding as to whether non-management stockholders will exercise their voting rights to continue to elect the current Board. There are also no arrangements, agreements or understandings between non-management stockholders that may directly or indirectly participate in or influence the management of our affairs.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have operations that expose us to currency risk in the British Pound Sterling, the Canadian Dollar, the Euro, the Mexican Peso, the New Taiwanese Dollar, and the Australian Dollar. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive income, a component of stockholders' equity in our consolidated balance sheets. We do not currently hedge our exposure to potential foreign currency translation adjustments.

Borrowings under our revolving lines of credit subject us to market risk resulting from changes in interest rates related to our floating rate bank credit facilities. For such borrowings, a hypothetical 200 basis point increase in variable interest rates may result in a material impact to our financial statements. We do not currently have any derivative contracts to hedge our exposure to interest rate risk. During each of the periods presented, we have not experienced a significant effect on our business due to changes in interest rates.

If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of XPEL, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of XPEL, Inc. and subsidiaries (the "Company") as of December 31, 2023 and 2022 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2024, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Deloitte & Touche LLP

Austin, Texas
February 28, 2024

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

XPEL, Inc.

Consolidated Balance Sheets
(In thousands except share and per share data)

	December 31, 2023	December 31, 2022
Assets		
Current		
Cash and cash equivalents	$ 11,609	$ 8,056
Accounts receivable, net	24,111	14,726
Inventory, net	106,509	80,575
Prepaid expenses and other current assets	3,529	3,464
Income tax receivable	696	—
Total current assets	146,454	106,821
Property and equipment, net	16,980	14,203
Right-of-use lease assets	15,459	15,309
Intangible assets, net	34,905	29,294
Other non-current assets	782	972
Goodwill	37,461	26,763
Total assets	$ 252,041	$ 193,362
Liabilities		
Current		
Current portion of notes payable	$ 62	$ 77
Current portion of lease liabilities	3,966	3,885
Accounts payable and accrued liabilities	32,444	22,970
Income tax payable	—	470
Total current liabilities	36,472	27,402
Deferred tax liability, net	2,658	2,049
Other long-term liabilities	890	1,070
Borrowings on line of credit	19,000	26,000
Non-current portion of lease liabilities	12,715	12,119
Non-current portion of notes payable	317	—
Total liabilities	72,052	68,640
Commitments and Contingencies (Note 15)		
Stockholders' equity		
Preferred stock, $0.001 par value; authorized 10,000,000; none issued and outstanding	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 27,630,025 and 27,616,064 issued and outstanding, respectively	28	28
Additional paid-in-capital	12,546	11,073
Accumulated other comprehensive loss	(1,209)	(2,203)
Retained earnings	168,624	115,824
Total stockholders' equity	179,989	124,722
Total liabilities and stockholders' equity	$ 252,041	$ 193,362

See notes to consolidated financial statements.

XPEL, Inc.

Consolidated Statements of Income
(In thousands except per share data)

	Year Ended December 31,		
	2023	2022	2021
Revenue			
Product revenue	$ 311,406	$ 258,174	$ 217,283
Service revenue	84,887	65,819	41,980
Total revenue	396,293	323,993	259,263
Cost of Sales			
Cost of product sales	198,008	169,905	151,286
Cost of service	35,871	26,576	15,300
Total cost of sales	233,879	196,481	166,586
Gross Margin	162,414	127,512	92,677
Operating Expenses			
Sales and marketing	31,788	25,367	18,273
General and administrative	63,654	48,208	34,288
Total operating expenses	95,442	73,575	52,561
Operating Income	66,972	53,937	40,116
Interest expense	1,248	1,410	303
Foreign currency exchange (gain)/loss	(307)	562	373
Income before income taxes	66,031	51,965	39,440
Income tax expense	13,231	10,584	7,873
Net income	$ 52,800	$ 41,381	$ 31,567
Earnings per share			
Basic	$ 1.91	$ 1.50	$ 1.14
Diluted	$ 1.91	$ 1.50	$ 1.14
Weighted Average Number of Common Shares			
Basic	27,622	27,614	27,613
Diluted	27,634	27,616	27,613

See notes to consolidated financial statements.

XPEL, Inc.

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Other comprehensive income			
Net income	$ 52,800	$ 41,381	$ 31,567
Foreign currency translation	994	(1,613)	(657)
Total comprehensive income	$ 53,794	$ 39,768	$ 30,910

See notes to consolidated financial statements.

XPEL, Inc.

Consolidated Statements of Changes in Stockholders' Equity
(In thousands)

	Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss (Income)	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2020	27,613	$ 28	$ 10,412	$ 42,876	$ 67	$ 53,383
Net income	—	—	—	31,567	—	31,567
Foreign currency translation	—	—	—	—	(657)	(657)
Purchase of minority interest	—	—	169	—	—	169
Balance as of December 31, 2021	27,613	$ 28	$ 10,581	$ 74,443	$ (590)	$ 84,462
Net income	—	—	—	41,381	—	41,381
Foreign currency translation	—	—	—	—	(1,613)	(1,613)
Stock-based compensation	3	—	492	—	—	492
Balance as of December 31, 2022	27,616	$ 28	$ 11,073	$ 115,824	$ (2,203)	$ 124,722
Net income	—	—	—	52,800	—	52,800
Foreign currency translation	—	—	—	—	994	994
Stock-based compensation	14	—	1,473	—	—	1,473
Balance as of December 31, 2023	27,630	$ 28	$ 12,546	$ 168,624	$ (1,209)	$ 179,989

See notes to consolidated financial statements.

XPEL, Inc.

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2023	2022	2021
Cash flows from operating activities			
Net income	$ 52,800	$ 41,381	$ 31,567
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	4,534	3,433	1,887
Amortization of intangible assets	5,059	4,401	2,501
Gain on sale of property and equipment	(13)	(8)	(36)
Stock compensation	1,640	522	169
Bad debt expense	243	467	302
Deferred income tax	(921)	(471)	1,011
Accretion on notes payable	—	7	25
Changes in assets and liabilities:			
Accounts receivable, net	(7,000)	(2,631)	(432)
Inventory, net	(24,843)	(28,565)	(26,939)
Prepaid expenses and other assets	604	259	(3,043)
Income tax receivable or payable	(1,197)	1,160	(766)
Accounts payable and accrued liabilities	6,478	(7,898)	12,022
Net cash provided by operating activities	37,384	12,057	18,268
Cash flows used in investing activities			
Purchase of property, plant and equipment	(6,356)	(7,936)	(6,725)
Proceeds from sale of property and equipment	29	73	66
Acquisitions, net of cash acquired, payment holdbacks, and notes payable	(18,735)	(4,673)	(49,185)
Development or purchase of intangible assets	(1,291)	(1,620)	(964)
Net cash used in investing activities	(26,353)	(14,156)	(56,808)
Cash flows from financing activities			
Net (payments) borrowings on revolving credit agreements	(7,000)	1,000	25,000
Payments on term-loan	—	—	(5,064)
Restricted stock withholding taxes paid in lieu of issued shares	(167)	(30)	—
Repayments of notes payable	(92)	(368)	(695)
Net cash (used in) provided by financing activities	(7,259)	602	19,241
Net change in cash and cash equivalents	3,772	(1,497)	(19,299)
Foreign exchange impact on cash and cash equivalents	(219)	(91)	(84)
Increase (Decrease) in cash and cash equivalents during the period	3,553	(1,588)	(19,383)
Cash and cash equivalents at beginning of year	8,056	9,644	29,027
Cash and cash equivalents at end of year	$ 11,609	$ 8,056	$ 9,644
Supplemental schedule of non-cash activities			
Contingent consideration	$ —	$ —	$ 2,576
Non-cash lease financing	$ 4,231	$ 6,094	$ 9,430
Issuance of common stock for vested restricted stock units	$ 1,038	$ 222	$ —
Supplemental cash flow information			
Cash paid for income taxes	$ 15,293	$ 9,897	$ 7,762
Cash paid for interest	$ 1,240	$ 1,306	$ 210

See notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - The Company is based in San Antonio, Texas and sells, distributes, and installs protective films and coatings, including automotive surface and paint protection film, headlight protection, automotive and architectural window films and ceramic coatings.

The Company was incorporated in the state of Nevada, U.S.A. in October 2003 and its registered office is 711 Broadway, Suite 320, San Antonio, Texas, 78215.

Basis of Presentation - The consolidated financial statements are prepared in conformity with GAAP and include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated. The functional currency for the Company is the United States dollar. The assets and liabilities of each of its wholly-owned foreign subsidiaries are translated into U.S dollars using the exchange rate at the end of the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. Gains and losses from translations are recognized in foreign currency translation included in accumulated other comprehensive loss in the accompanying consolidated balance sheets.

Segment Reporting - Management has concluded that our chief operating decision maker ("CODM") is our chief executive officer. The Company's CODM reviews the entire organization's consolidated results as a whole on a monthly basis to evaluate performance and make resource allocation decisions. Management views the Company's operations and manages its business as one operating segment.

Use of Estimates - The preparation of these consolidated financial statements in conformity to U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from these estimates under different assumptions and conditions.

Foreign Currency Translation - The U.S. dollar is the functional currency of our domestic operations located in the United States. The financial statements of subsidiaries located outside of the U.S. are generally measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resultant translation adjustments are included in accumulated other comprehensive income, a separate component of stockholders' equity.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase. The balance, at times, may exceed federally insured limits.

Accounts Receivable - Accounts receivable are shown net of an allowance for expected credit losses and doubtful accounts of $0.2 million and $0.2 million as of December 31, 2023 and 2022, respectively. The Company evaluates the adequacy of its allowances by analyzing the aging of receivables, customer financial condition, historical collection experience, the value of any collateral and other economic and industry factors. Actual collections may differ from historical experience, and if economic, business or customer conditions deteriorate significantly, adjustments to these reserves may be required. When the Company becomes aware of factors that indicate a change in a specific customer's ability to meet its financial obligations, the Company records a specific reserve for credit losses. At December 31, 2023 and 2022, there were no significant accounts receivable concentrations.

Inventory - Inventories of all operating subsidiaries are comprised of raw materials, film, film installation support products, and supplies which are valued at lower of cost or net realizable value, with cost determined on a weighted average cost basis. Inventory costs include those costs directly attributable to products, including materials, labor, shipping, and overhead. The Company provides reserves for discontinued, slow-moving and excess inventory based upon historical demand calculations, forecasted usage, estimated customer requirements and product line updates. As of December 31, 2023 and 2022, inventory reserves were $0.8 million and $0.7 million, respectively.

Property, Plant and Equipment - Property and equipment are recorded at cost, with the exception of property and equipment acquired in connection with the Company's acquisitions, which are recorded at fair value on the date of acquisition. Expenditures which improve or extend the life of the respective definite-lived assets are capitalized, whereas expenditures for normal repairs and maintenance are charged to operations as incurred. Depreciation expense is computed using the straight-line method as follows:

Furniture and fixtures	5 years
Computer equipment	3-4 years
Vehicles	5 years
Equipment	5-10 years
Leasehold improvements	shorter of lease term or estimated useful life
Plotters	4 years

The following table presents geographic property, plant and equipment, net of accumulated depreciation, by region as of December 31 (in thousands):

	2023	2022
United States	$ 13,942	$ 12,511
Canada	1,332	469
Europe	1,359	1,093
Other	347	130
Consolidated	$ 16,980	$ 14,203

Goodwill - Goodwill represents the excess purchase price over the fair value of tangible net assets acquired in acquisitions after amounts have been allocated to intangible assets. Goodwill is tested for impairment at the reporting unit level on an annual basis (at December 31) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company recognized no goodwill impairment in the years ended December 31, 2023 or December 31, 2022, and there is no significant accumulated impairment of goodwill from prior years. Refer to Note 6, Goodwill for more information related to goodwill.

The following table presents geographic goodwill by region as of December 31 (in thousands):

	2023	2022
United States	$ 20,371	$ 17,699
Canada	10,397	5,108
Europe	5,660	2,923
Other	1,033	1,033
Consolidated	$ 37,461	$ 26,763

Intangible Assets - Intangible assets consist primarily of software, customer relationships, trademarks and non-compete agreements. These assets are amortized on a straight-line basis over the period of time in which their expected benefits will be realized.

The following table presents geographic intangible assets, net by region as of December 31 (in thousands):

	2023	2022
United States	$ 24,178	$ 23,749
Canada	5,738	3,127
Europe	4,353	1,685
Other	636	733
Consolidated	$ 34,905	$ 29,294

The following table presents the anticipated useful lives of intangible assets:

Trademarks	10 years
Software	5 years
Trade name	10-15 years
Contractual and customer relationships	9-10 years
Non-compete	3-5 years
Other	2-10 years

Impairment of Long-Lived Assets - The Company reviews and evaluates long-lived assets for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. When the undiscounted expected future cash flows are not sufficient to recover an asset's carrying amount, the fair value is compared to the carrying value to determine the impairment loss to be recorded. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less the cost to sell. Fair values are determined by independent appraisals or expected sales prices based upon market participant data developed by third-party professionals or by internal licensed real estate professionals. Estimates of future cash flows and expected sales prices are judgments based upon the Company's experience and knowledge of operations. These estimates project cash flows several years into the future and are affected by changes in the economy, real estate market conditions and inflation.

No impairment was recorded during the years ended December 31, 2023 or 2022.

Other Long-Term Liabilities - The balance presented as other long-term liabilities on the Company's consolidated balance sheet at December 31, 2023 primarily relates to contingent liabilities from acquisitions completed in prior years. These liabilities are revalued at each reporting period. Refer to Note 13 for additional discussion of the valuation of these liabilities.

Revenue Recognition - Our revenue is comprised primarily of product and services sales where we act as principal to the transaction. All revenue is recognized when the Company satisfies its performance obligation(s) by transferring control/final benefit from the promised product or service to our customer. Due to the nature of our sales contracts, the majority of our revenue is recognized at a point in time. A performance obligation is a contractual promise to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation. Revenue is recorded net of returns and allowances. Sales, value add, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis. Shipping and handling costs are accounted for as a fulfillment obligation, on a net basis, and are included in cost of sales. See Note 2, Revenue, for additional accounting policies related to revenue recognition.

Research and Development - Research costs are charged to operations when incurred. Software development costs, including costs associated with developing software patterns, are expensed as incurred unless the Company incurred these expenses in the development of a new product or long-lived asset. Research and development costs were $2.9 million, $0.4 million, and $0.4 million in the years ended December 31, 2023, 2022 and 2021, respectively.

Advertising costs - Advertising costs are charged to operations when incurred. Advertising costs were $1.7 million, $1.2 million and $1.1 million in the years ended December 31, 2023, 2022 and 2021, respectively.

Provisions and Warranties - We provide warranties on our products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals as claims data experience warrant. The following table presents a summary of our warranty liabilities as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Warranty balance at beginning of period	$ 234	$ 75
Warranties assumed in period	768	624
Payments	(580)	(465)
Warranty balance at end of period	$ 422	$ 234

Income Taxes - Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred and other tax assets and liabilities. The Company accounts for the tax impact of including Global Intangible Low-Taxed Income ("GILTI") in U.S. taxable income as a period cost.

Stock-Based Compensation - We measure stock-based compensation cost at the grant date based on the fair value of the award. Compensation expense is recognized over the period during which the recipient provides service in exchange for the awards. Excess income tax benefits related to share-based compensation expense are recognized as income tax expense or benefit in the Consolidated Statements of Income. We account for forfeitures as they occur, rather than estimate expected forfeitures.

Accumulated Other Comprehensive Income (Loss) ("AOCI") - The Company reports comprehensive income (loss) that includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to expenses, gains and losses that are not included in net earnings. These amounts are also presented in the Consolidated Statements of Comprehensive Income. As of December 31, 2023 and 2022, respectively, AOCI relates to foreign currency translation adjustments.

Earnings Per Share - Basic earnings per share is calculated by dividing net income for the year attributable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing the net income attributable to common stockholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

Acquisitions of Businesses - Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Company's share of the identifiable net assets acquired, is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination and are recognized as general and administrative expense as incurred. The Company evaluates the materiality of required disclosures related to our business combinations using quantitative and qualitative measures.

Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

Level 1:	Valuation is based on observable inputs such as quoted market prices (unadjusted) for identical assets or liabilities in active markets.
Level 2:	Valuation is based on inputs such as quoted market prices for similar assets or liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3:	Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Recent Accounting Pronouncements Issued and Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, “Improvements to Reportable Segment Disclosures” which makes makes certain updates to segment reporting, and, in December 2023, the FASB issued ASU 2023-09, “Improvements to Income Tax Disclosures”, which makes certain updates to income tax disclosures. These standards become effective for our fiscal years beginning January 1, 2023 and January 1, 2024, respectively. We do not anticipate these standards to have a material impact on our financial statements.

2. REVENUE

Revenue recognition

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods and services to a customer, in an amount that reflects the consideration that it expects to receive in exchange for those goods or services. This is achieved through 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; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes, with the exception of taxes assessed during the procurement process of select inventories. Shipping and handling costs are included in cost of sales.

Revenue from product and services sales are recognized when control of the goods is transferred to the customer which occurs at a point in time typically upon shipment to the customer or completion of the service. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments.

Based upon the nature of the products the Company sells, its customers have limited rights of return which are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales as the products are sold.

Warranty obligations associated with the sale of our products are assurance-type warranties that are a guarantee of the product's intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract. Warranty expense is included in cost of sales.

We apply a practical expedient to expense direct costs of obtaining a contract when incurred because the amortization period would have been one year or less.

Under its contracts with customers, the Company stands ready to deliver products upon receipt of a purchase order. Accordingly, the Company has no performance obligations under its contracts until its customers submit a purchase order. The Company does not enter into commitments to provide goods or services that have terms greater than one year. In limited cases, the Company does require payment in advance of shipping product. Typically, product is shipped within a few days after prepayment is received. These prepayments are recorded as contract liabilities on the consolidated balance sheet and are included in accounts payable and accrued liabilities. See Note 10 of the Notes to our Consolidated Financial Statements for further information. As the performance obligation is part of a contract that has an original expected duration of less than one year, the Company has applied the practical expedient to omit disclosures regarding remaining performance obligations.

The following table summarizes transactions included within contract liabilities for the years ended December 31, 2023, 2022 and 2021, respectively (in thousands):

Balance, December 31, 2021	$	818
Revenue recognized related to payments included in the December 31, 2021 balance		(768)
Balance, Payments received for which performance obligations have not been satisfied		206
Effect of Foreign Currency Translation		5
Balance, December 31, 2022	$	261
Revenue recognized related to payments included in the December 31, 2022 balance		(206)
Payments received for which performance obligations have not been satisfied		691
Effect of Foreign Currency Translation		15
Balance, December 31, 2023	$	761

When the Company transfers goods or services to a customer, payment is due, subject to normal terms, and is not conditional on anything other than the passage of time. Typical payment terms range from due upon receipt to 30 days, depending on the type of customer and relationship. At contract inception, the Company expects that the period of time between the transfer of goods to the customer and when the customer pays for those goods will be less than one year, which is consistent with the Company's standard payment terms. Accordingly, the Company has elected the practical expedient to not adjust for the effects of a significant financing component. As such, these amounts are recorded as receivables and not contract assets.

The table below sets forth the disaggregation of revenue by product category for the years ended December 31, 2023, 2022, and 2021 (in thousands):

	2023	2022	2021
Product Revenue			
Paint protection film	$ 229,880	$ 192,374	$ 169,880
Window film	67,951	54,370	38,363
Other	13,575	11,430	9,040
Total	$ 311,406	$ 258,174	$ 217,283
Service Revenue			
Software	$ 6,518	$ 5,213	$ 4,373
Cutbank credits	17,626	16,317	12,372
Installation labor	58,477	42,828	24,253
Training and other	2,266	1,461	982
Total	$ 84,887	$ 65,819	$ 41,980
Total	$ 396,293	$ 323,993	$ 259,263

Our largest customer accounted for 10.5%, 10.5% and 17.9% of our net sales during the years ended December 31, 2023, 2022 and 2021, respectively.

3. ACQUISITIONS OF BUSINESSES

The Company completed the following acquisitions during the years ended December 31, 2023, 2022 and 2021 (dollars in thousands):

During 2023, we acquired certain companies for an aggregate purchase price of $20.8 million.

During 2022, we acquired a company for an aggregate purchase price of $2.2 million.

During 2021, we acquired certain companies for an aggregate purchase price of $57.6 million.

The purchase agreements for transactions completed during the year ended December 31, 2023 provide for customary purchase price adjustments related to acquired working capital. These purchase price adjustments have not yet been completed. Additionally, our valuation models related to identified intangible assets included in these acquisitions are also not yet finalized. As a result, the purchase price accounting presented below is preliminary in nature. We anticipate finalizing the accounting for these acquisitions within the first half of 2024. The total preliminary purchase price for acquisitions completed during the year ended December 31, 2023, and finalized purchase price for those completed during the years ended 2022 and 2021 are as follows (in thousands):

	December 31,		
	2023 Acquisitions	2022 Acquisitions	2021 Acquisitions
Purchase Price			
Cash[1]	$ 20,387	$ 1,876	$ 54,991
Contingent consideration	—	—	2,576
Note payable	387	—	—
Cancellation of receivable balance	—	302	—
	$ 20,774	$ 2,178	$ 57,567
Allocation			
Cash	$ 1,062	$ —	$ 3,789
Other working capital	868	595	4,236
Other long-term assets	8	—	7
Property and equipment	878	—	440
Other long-term liabilities	(108)	—	—
Trade name	406	—	2,121
Acquired patterns	—	—	488
Customer relationships	8,720	612	26,329
Goodwill	10,422	971	21,284
Deferred tax liability	(1,482)	—	(1,127)
	$ 20,774	$ 2,178	$ 57,567

[1]Total cash consideration is comprised of amounts paid on closing dates plus holdback amounts to be paid in the future net of working capital deficiencies to be reclaimed from seller.

Intangible assets acquired in the years ended December 31, 2023 and 2022 have a weighted average useful life of 9 years.

Goodwill for these acquisitions relates to the expansion into new geographical areas, the acquired employee knowledge of the various markets, institutional distribution abilities, as well as the expected synergies resulting from the acquisitions.

Goodwill and other intangibles acquired in taxable asset purchases are analyzed for allowable amortization for tax purposes over appropriate periods as prescribed by applicable regulatory jurisdictions.

Acquisition costs incurred related to these acquisitions were immaterial and were included in selling, general and administrative expenses.

The acquired companies were consolidated into our financial statements on their respective acquisition dates. The aggregate revenue and the net income from 2023 acquisitions consolidated into our 2023 consolidated financial statements were $4.8 million and $0.4 million, respectively. The aggregate revenue and operating income of our 2022 acquisitions consolidated into our 2022 consolidated financial statements from the date of acquisition were not substantial. The aggregate revenue and operating income of our 2021 acquisitions consolidated into our 2021 consolidated financial statements from the respective dates of acquisition were $16.6 million and $1.6 million, respectively.

The following unaudited pro forma financial information presents our results, including the estimated expenses relating to the amortization of intangibles purchased, as if the acquisitions during the year ended December 31, 2023 had occurred on January 1, 2023 and 2022 (in thousands):

	Twelve Months Ended December 31,	
	2023 (Unaudited)	2022 (Unaudited)
Revenue	$ 407,266	$ 337,868
Net income	$ 53,177	$ 41,473

The unaudited consolidated pro forma combined financial information does not purport to be indicative of the results which would have been obtained had the acquisitions been completed as of the beginning of the earliest period presented or of results that may be obtained in the future. In addition, they do not include any benefits that may result from the acquisition due to synergies that may be derived from the elimination of any duplicative costs.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following (in thousands):

	December 31, 2023	December 31, 2022
Furniture and fixtures	$ 3,844	$ 2,667
Computer equipment	4,743	3,455
Vehicles	1,141	838
Equipment	5,685	4,728
Leasehold improvements	10,921	7,081
Plotters	4,315	2,980
Construction in Progress	201	1,745
Total property and equipment	30,850	23,494
Less: accumulated depreciation	13,870	9,291
Property and equipment, net	$ 16,980	$ 14,203

Depreciation expense for the years ended December 31, 2023, 2022 and 2021 was $4.5 million, $3.4 million and $1.9 million, respectively. Depreciation expense for equipment used in production is recorded to cost of goods sold. All other depreciation is recorded within general and administrative expense.

5. INTANGIBLE ASSETS, NET

Intangible assets consists of the following (in thousands):

	December 31, 2023	December 31, 2022
Trademarks	$ 864	$ 686
Software	5,919	4,822
Trade name	1,918	1,451
Contractual and customer relationships	40,866	31,871
Non-compete	447	440
Other	510	497
Total at cost	50,524	39,767
Less: Accumulated amortization	15,619	10,473
Intangible assets, net	$ 34,905	$ 29,294

Amortization expense for the years ended December 31, 2023, 2022 and 2021 was $5.1 million, $4.4 million and $2.5 million, respectively. Based on the carrying value of definite-lived intangible assets as of December 31, 2023, we estimate our future amortization expense will be as follows (in thousands):

2024	$ 5,626
2025	$ 5,369
2026	$ 5,290
2027	$ 4,911
2028	$ 4,587
Thereafter	$ 9,122

6. GOODWILL

The following table summarizes changes in the carrying amounts of goodwill for the years ended December 31, 2023 and 2022 (in thousands):

Balance at December 31, 2021	$	25,655
Additions		1,826
Foreign currency translation		(718)
Balance at December 31, 2022	$	26,763
Balance at December 31, 2022	$	26,763
Additions		10,422
Foreign currency translation		276
Balance at December 31, 2023	$	37,461

For additional details related to the acquisition completed during the year ended December 31, 2023, and for details related to purchase price allocations finalized during the year, refer to Note 3.

7. INVENTORIES

The components of inventory, net of reserves, are summarized as follows (in thousands):

	December 31, 2023	December 31, 2022
Raw materials	$ 22,308	$ 10,416
Work in process	6,230	6,756
Finished goods	77,971	63,403
	$ 106,509	$ 80,575

8. DEBT

REVOLVING FACILITIES

The Company has a revolving credit facility providing for secured revolving loans and letters of credit in an aggregate amount of up to $125.0 million, which is subject to the terms of a credit agreement dated April 6, 2023 (the "Credit Agreement"). As of December 31, 2023, the Company had an outstanding balance of $19.0 million under this agreement. As of December 31, 2022, the Company had an outstanding balance of $26.0 million under a prior credit agreement which was subsequently repaid and terminated.

Borrowings under the Credit Agreement bear interest, at XPEL's option, at a rate equal to either (a) Base Rate or (b) Adjusted Term SOFR. In addition to the applicable interest rate, the Credit Agreement includes a commitment fee ranging from 0.20% to 0.25% per annum for the unused portion of the aggregate commitment and an applicable margin ranging from 0.00% to 0.50% for Base Rate Loans and 1.00% to 1.50% for Adjusted Term SOFR Loans. At December 31, 2023, these rates were 6.5% and 6.4%, respectively. Both the margin applicable to the interest rate and the commitment fee are dependent on XPEL's Consolidated Total Leverage Ratio. The Credit Agreement's maturity date is April 6, 2026. All capitalized terms in this description of the credit facility that are not otherwise defined in this Annual Report have the meaning assigned to them in the Credit Agreement.

Obligations under the Credit Agreement are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of XPEL's material property and assets.

The terms of the Credit Agreement include certain affirmative and negative covenants that require, among other things, XPEL to maintain legal existence and remain in good standing, comply with applicable laws, maintain accounting records, deliver financial statements and certifications on a timely basis, pay taxes as required by law, and maintain insurance coverage, as well as to forgo certain specified future activities that might otherwise encumber XPEL and certain customary covenants. The Credit Agreement provides for two financial covenants, as follows.

As of the last day of each fiscal quarter:

1. XPEL shall not allow its Consolidated Total Leverage Ratio to exceed 3.50 to 1.00, and
2. XPEL shall not allow its Consolidated Interest Coverage Ratio to be less than 3.00 to 1.00.

The Company also has a CAD $4.5 million (approximately $3.3 million as of December 31, 2023) revolving credit facility through a financial institution in Canada, as maintained by XPEL Canada Corp., a wholly-owned subsidiary of XPEL. This Canadian facility is utilized to fund the Company's working capital needs in Canada. This facility bears interest at HSBC Canada Bank’s prime rate plus 0.25% per annum and is guaranteed by the parent company. As of December 31, 2023 and December 31, 2022, no balance was outstanding on this line of credit.

As of December 31, 2023 and December 31, 2022, the Company was in compliance with all debt covenants.

9. EMPLOYEE BENEFIT PLANS

The Company sponsors defined contribution plans for substantially all employees. Annual Company contributions under the plans are discretionary. Company contribution expenses were $1.0 million, $0.8 million and $0.5 million for the plan years ended December 31, 2023, 2022 and 2021, respectively.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table presents significant accounts payable and accrued liability balances as of the periods ending:

	December 31, 2023	December 31, 2022
Trade payables	$ 24,233	$ 16,689
Payroll liabilities	4,296	3,596
Contract liabilities	761	261
Acquisition holdback payments	868	191
Other liabilities	2,286	2,233
	$ 32,444	$ 22,970

11. CAPITAL STOCK

Shares issued and outstanding at December 31, 2023 and 2022 were 27,630,025 and 27,616,064, respectively. Par value of these shares for these same dates was $0.03 million.

12. STOCK-BASED COMPENSATION

The XPEL, Inc. 2020 Equity Incentive Plan (the “Plan”) was approved at the May 28, 2020 Annual Meeting of Stockholders and amended in the May 24, 2023 Annual Meeting of Stockholders. Under this amended plan, 550,000 shares of the Company’s Common Stock are reserved for issuance, as administered by the Company’s Compensation Committee. Awards may be granted to employees, consultants, or directors of the Company or any parent or subsidiary of the Company; provided that incentive stock options may be granted only to employees. If an award made under the Plan expires, if it is terminated, surrendered, cancelled, or otherwise becomes unexercisable, or if an award is forfeited in whole or in part or is forfeited due to failure to vest, then the unpurchased shares under such award will become available for future grant under the Plan. The Plan allows for different types of awards to be granted.

Stock options awarded under the Plan must be at least equal to the fair market value of a share of our Common Stock on the date of the grant. Any option period will not exceed 10 years, except with respect to any participant who owns more than 10% of the voting power of all classes of stock of the Company.

Restricted stock, Restricted Stock Units ("RSUs"), Performance Stock Units ("PSUs"), and Other Share-based Awards may be granted at the discretion of the Compensation Committee according to terms and conditions set by the Compensation Committee, subject to the provisions of the Plan.

RSUs and PSUs have been granted under the Plan. Grant activity for the year ended December 31, 2023 is summarized as follows:

	Number of Performance Stock Units	Weighted Average Grant Value Per Share	Number of Restricted Stock Units	Weighted Average Grant Value Per Share
Outstanding at December 31, 2022	—	$ —	44,567	$ 69.63
Granted	19,427	78.50	44,353	68.25
Vested	—	78.50	(16,126)	74.47
Forfeited or canceled	(2,229)	78.50	(8,570)	53.08
Outstanding at December 31, 2023	17,198	$ 78.50	64,224	$ 73.29

During the years ended December 31, 2023, 2022, and 2021 we recorded compensation expense of $1.6 million, $0.5 million, and $0.2 million, respectively, related to grants under the Plan.

13. FAIR VALUE MEASUREMENTS

ASC 820 prioritizes the inputs to valuation techniques used to measure fair value into the following hierarchy:

Level 1 – Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than the quoted prices in active markets that are observable either directly or indirectly, including: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market data and require the reporting entity to develop its own assumptions.

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, our line of credit, and long-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, our line of credit, and short-term borrowings approximate fair value because of the near-term maturities of these financial instruments. The carrying value of the Company's notes payable approximates fair value due to the relatively short-term nature and interest rates of the notes. The carrying value of the Company's long-term debt approximates fair value due to the interest rates being market rates.

The estimated fair value of debt is based on market quotes for instruments with similar terms and remaining maturities.

The Company has contingent liabilities related to future internal performance milestones. The fair value of these liabilities was determined using a Monte Carlo Simulation based on the probability and timing of future payments under these arrangements. These liabilities are accounted for as Level 3 liabilities within the fair value hierarchy.

Level 3 liabilities measured at December 31, 2023 and 2022 at fair value on a recurring basis are as follows (in thousands):

	2023	2022
Level 3:		
Contingent Liabilities	$ 815	$ 955

Changes in the value of these liabilities are reflected in general and administrative expenses in the Consolidated Statements of Income for the twelve months ended December 31, 2023 and 2022, respectively.

14. INCOME TAXES

Income before income taxes on which the provision for income taxes was computed is as follows (in thousands):

	2023	2022	2021
Domestic	$ 61,974	$ 48,574	$ 35,647
International	4,057	3,391	3,793
Income before income taxes	$ 66,031	$ 51,965	$ 39,440

The provision for income taxes differs from the US federal statutory rate as follows:

	2023	2022	2021
Income before income taxes	$ 66,031	$ 51,965	$ 39,440
Statutory rate	21 %	21 %	21 %
	$ 13,867	$ 10,913	$ 8,282
State taxes net of federal benefit	$ 1,238	$ 862	$ 649
Nondeductible/nontaxable items	256	53	101
Tax Impact of foreign operations	284	230	171
Foreign derived intangible income benefit	(1,647)	(1,114)	(970)
Other - net	(767)	(360)	(360)
Income tax expense	$ 13,231	$ 10,584	$ 7,873

The foreign tax rate differential reflects the impact of the differences in our various international tax rates and our US statutory rate.

The components of the income tax provision (benefit) are as follows (in thousands):

	Year ended December 31		
	2023	2022	2021
Current income tax expense			
Federal	$ 11,104	$ 9,006	$ 5,051
Foreign	1,372	1,025	1,158
State	1,671	1,036	664
Total current income tax expense	$ 14,147	$ 11,067	$ 6,873
Deferred income tax (benefit)/expense			
Federal	$ (533)	$ (196)	$ 968
Foreign	(354)	(249)	3
State	(29)	(38)	29
Total deferred income tax (benefit)/expense	$ (916)	$ (483)	$ 1,000
Total	$ 13,231	$ 10,584	$ 7,873

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows (in thousands):

	Year ended December 31	
	2023	2022
Deferred Tax Assets		
Allowance for Doubtful Accounts	$ 42	$ 26
263(A) Adjustment	265	190
Accrued Expenses	577	526
Inventory Reserve	173	152
Unrealized loss	38	21
State Tax Credit	170	174
NOL Carryforward and Other	220	232
Stock Compensation	174	73
Capitalized Acquisition Costs	112	65
Capitalized Research and Development	1,572	898
Right of Use Lease Liability	3,385	3,154
Less Valuation Allowance	(92)	(83)
Total deferred tax assets	$ 6,636	$ 5,428
Deferred Tax Liabilities		
Fixed and Intangible Assets	$ 6,176	$ 4,465
Unrealized Gain	—	15
Right of Use Lease Asset	3,118	2,997
Total deferred tax liabilities	9,294	7,477
Total net deferred tax liabilities	$ (2,658)	$ (2,049)

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. The Company regularly assesses the likelihood that the deferred tax assets will be recovered from future taxable income. The Company considers projected future taxable income, the reversal of taxable temporary differences, and ongoing tax planning strategies, then records a valuation allowance, if deemed necessary, to reduce the carrying value of the net deferred taxes to an amount that is more likely than not able to be realized. Based upon the Company's assessment of all available evidence, including the previous two years of taxable income and loss after permanent items, estimates of future profitability, and the Company's overall prospects of future business, the Company determined that it is more likely than not that the Company will realize all of its deferred tax assets in the future, with the exception of an immaterial valuation allowance recorded against net operating losses and intangibles in foreign jurisdictions. The Company will continue to assess the potential realization of deferred tax assets on an annual basis, or an interim basis if circumstances warrant. If the Company's actual results and updated projections vary significantly from the projections used as basis for this determination, the Company may need to change the valuation allowance against the gross deferred tax assets.

The Company has net operating losses in certain of its foreign subsidiaries of $0.9 million available to apply against future taxable income. Losses of $0.3 million have no expiration date. The Company has recorded a valuation allowance based on the lack of positive available evidence of realizability of acquired net operating losses of $0.3 million. The Company has state tax credits of $0.2 million available to apply against future taxable income. These credits begin to expire in the year 2039.

Reconciliation of Unrecognized Tax Benefits from Uncertain Tax Positions (in thousands)

	Year Ended December 31,		
	2023	2022	2021
Beginning unrecognized tax benefits	$ 144	$ 129	$ 129
Increase in related tax positions of prior years	—	15	—
Lapse of statute of limitations	30	—	—
Ending unrecognized tax benefits	$ 114	$ 144	$ 129

The Company recognizes the tax effects of an uncertain tax position only if it is more likely than not to be sustained based solely upon its technical merits at the reporting date. The unrecognized tax benefit is the difference between the tax benefit recognized and the tax benefit claimed on the Company's income tax return. The Company has an unrecognized tax benefit as of the year ended December 31, 2023 in the amount of $0.2 million related to an uncertain tax position in one of its foreign jurisdictions. This amount includes an estimate for interest and penalties and are included in income tax expense. The liability is reflected in other long-term liabilities on the Company's balance sheet. The Company expects a reduction of the position in 2024 related to expiring statutes. The unrecognized tax benefits in the table above includes $0.1 million as of December 31, 2023, that, if recognized, would have impacted income tax expense. The Company believes that all material tax positions in the current and prior years have been analyzed and properly accounted for and that the risk of additional material uncertain tax positions that have not been identified is remote.

The Company plans to indefinitely reinvest foreign earnings and does not expect to repatriate earnings for the foreseeable future. Determination of the amount of unrecognized deferred tax liabilities related to investment in these foreign subsidiaries is not practicable.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is still subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years 2016 and after. There are no ongoing or pending IRS, state or foreign examinations.

15. COMMITMENTS AND CONTINGENCIES

CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Management also has determined that the likelihood of any litigation and claims having a material impact on our results of operations, cash flows or financial position is remote.

16. LEASES

We lease space under non-cancelable operating leases for office space, warehouse facilities, and installation locations. We also lease vehicles and equipment to support our global operations. We have not elected the practical expedient to combine lease and non-lease components. We have also elected to adopt the package of practical expedients that allow us not to reassess whether expired leases are or contain leases, not to reassess the lease classification of existing leases, and not to reassess initial direct costs for existing leases.

Some of our leases contain options to renew. The exercise of lease renewals is at our sole discretion; therefore, the renewals to extend the lease terms are not included in our right-of-use assets as it is not reasonably certain that they will be exercised. We regularly evaluate the renewal options and, when they are reasonably certain of exercise, we include the renewal period in our lease term.

We use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. In determining our incremental borrowing rate for each lease, we use a rate for collateralized borrowings with a term similar to the life of the lease. We have a centrally managed treasury function; therefore, based on the applicable lease terms and the current economic environment, we apply a portfolio approach for determining the incremental borrowing rate.

Balance sheet information related to operating leases is as follows:

	December 31, 2023	December 31, 2022
Operating lease right-of-use assets	$ 15,459	$ 15,309
Current portion of operating lease liabilities	3,966	3,885
Noncurrent portion of operating lease liabilities	12,715	12,119
Total operating lease liabilities	$ 16,681	$ 16,004

We had operating lease expense of $5.0 million, $4.2 million, and $2.7 million, respectively, for the years ended December 31, 2023, 2022, and 2021. For the year ended December 31, 2023, we had negligible short-term lease expenses, and cash payments on leases, and variable expenses were $4.6 million, and $0.1 million, respectively. For the year ended December 31, 2022, short-term lease expenses, cash payments on leases, and variable lease expenses were $0.6 million, $3.5 million, and $0.4 million, respectively. We have elected not to apply balance sheet recognition to short-term leases.

Weighted-average information associated with the measurement of our remaining operating lease obligations is as follows:

	December 31, 2023	December 31, 2022
Weighted-average remaining lease term (in years)	4.4	5.3
Weighted-average discount rate	5.5 %	5.0 %

The following table summarizes the maturity of our operating lease liabilities as of December 31, 2023:

2024	$ 4,532
2025	4,271
2026	3,626
2027	2,446
2028	1,808
Thereafter	2,880
Total operating lease payments	19,563
Less: interest	(2,882)
Total operating lease liabilities	$ 16,681

17. EARNINGS PER SHARE

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the effect of granted incremental restricted stock units.

The following table reconciles basic and diluted weighted average shares used in the computation of earnings per share (in thousands except per share values):

	Fiscal Year Ended December 31,		
Numerator	2023	2022	2021
Net income	$ 52,800	$ 41,381	$ 31,567
Denominator			
Weighted average basic shares	27,622	27,614	27,613
Dilutive effect of restricted stock units	12	2	—
Weighted average diluted shares	27,634	27,616	27,613
Earnings per share			
Basic	$ 1.91	$ 1.50	$ 1.14
Diluted	$ 1.91	$ 1.50	$ 1.14

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established and maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed with the SEC pursuant to the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act) as of the end of the period covered by this Annual Report. Based on such evaluation, our CEO and CFO have each concluded that as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act). In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (2013 Framework). Our management has concluded that we maintained effective internal control over financial reporting as of December 31, 2023.

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within the Company have been detected.

Our internal control over financial reporting as of December 31, 2023 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their attestation report on our internal control over financial reporting which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of XPEL, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of XPEL, Inc. and subsidiaries (the "Company") as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2023, of the Company and our report dated February 28, 2024, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Austin, Texas
February 28, 2024

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

Part III

Item 10. Directors, Executive and Corporate Governance

The information required by this Item is set forth under the headings "Corporate Governance," "Directors," "Executive Officers" and "Other Information—Security Ownership of Certain Beneficial Owners and Management" in the Company's 2024 Proxy Statement to be filed with the SEC within 120 days after December 31, 2023, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item is set forth under the heading "Executive Compensation," under the subheadings "Board Oversight of Risk Management" and "Compensation Committee Interlocks and Insider Participation" under the heading "Corporate Governance" and under the subheadings "Compensation of Directors" and "Director Compensation - 2023" under the heading "Directors" in the Company's 2024 Proxy Statement to be filed with the SEC within 120 days after December 31, 2023, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is set forth under the headings “Other Information—Security Ownership of Certain Beneficial Owners and Management” and “Other Information—Equity Compensation Plan Information” in the Company’s 2024 Proxy Statement to be filed with the SEC within 120 days after December 31, 2023, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is set forth under the subheadings “Board Committees”, “Review, Approval, or Ratification of Transactions with Related Persons” and “Transactions with Related Persons” under the heading “Corporate Governance” in the Company’s 2024 Proxy Statement to be filed with the SEC within 120 days after December 31, 2023, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item is set forth under the subheadings “Fees Paid to Auditors” and “Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services Performed by the Independent Registered Public Accounting Firm” under the proposal “Ratification of Appointment of Independent Registered Public Accounting Firm” in the Company’s 2024 Proxy Statement to be filed with the SEC within 120 days after December 31, 2023, and is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

   See Index to Financial Statements at Item 8 herein.

2. Financial Statement Schedules

   Schedules not listed above have been omitted because they are not required, not applicable, or the required information is otherwise included.

3. Exhibits

   The exhibits listed below are filed or furnished as part of this Annual Report or are incorporated herein by reference, in each case as indicated below.

		Incorporated by Reference		
Exhibit Number	Description	Form	Exhibit/ Appendix	Filing Date
3.1	Articles of Incorporation of the Company, filed with the Nevada Secretary of State on October 14, 2003	10-12B	3.1	04/03/2019
3.2	Certificate of Amendment to the Articles of Incorporation of the Company, filed with the Nevada Secretary of State on December 29, 2003	10-12B	3.2	04/03/2019
3.3	Certificate of Amendment to the Articles of Incorporation of the Company, filed with the Nevada Secretary of State on June 3, 2018	10-12B	3.3	04/03/2019
3.4	Amended and Restated Bylaws of the Company, effective as of November 18, 2019	8-K	3.1	11/18/2019
3.5	Amended and Restated Bylaws of the Company, effective as of October 31, 2023	8-K	3.1	11/01/2023
4.1	Description of Securities of the Registrant	10-K	4.1	03/16/2020
10.1	Credit Agreement Dated April 6, 2023	8-K	10.1	04/06/2023
10.2	Credit Facility Letter, dated September 11, 2018, by and among XPEL Canada Corp., as borrower, XPEL, Inc., as guarantor, and HSBC Bank Canada, as lender.	10-12B/A	10.3	05/30/2019
10.3	Distribution Agreement dated May 31, 2018 by and between the Company and Shanghai Xing Ting Trading Co., Ltd.	10-12B/A	10.5	05/30/2019
10.4*+	XPEL, Inc. 2020 Equity Incentive Plan, as amended on May 24, 2023			
10.5+	Form of Restricted Stock Unit Agreement	10-Q	10.1	08/09/2021
10.6+	Form of Performance Restricted Stock Unit Award Agreement	10-Q	10.1	08/09/2023
14.1	Code of Business Conduct and Ethics	10-12B/A	14.1	04/24/2019
19.1*	XPEL, Inc. Second Amended and Restated Insider Trading Policy, effective as of May 24, 2023			
21.1*	Subsidiaries of the Company			
23.1*	Consent of Deloitte & Touche, LLP			

24.1*	Power of Attorney
31.1*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer
32.1**	Section 1350 Certifications of Chief Executive Officer
32.2**	Section 1350 Certifications of Chief Financial Officer
97.1*+	XPEL, Inc. Compensation Clawback Policy, effective as of October 31, 2023.
101*	Inline XBRL Document Set for the consolidated financial statements and accompanying notes in Part II, Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K
104*	Inline XBRL for the cover page of this Annual Report on Form 10-K, included in the Exhibit 101 Inline XBRL Document Set

* Filed herewith
** Furnished herewith
+Management Compensatory Plan or Agreement

Item 16. Form 10-K Summary

None.

SIGNATURES

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

XPEL, Inc. (Registrant)

By: /s/ Barry R. Wood

Barry R. Wood

Senior Vice President and Chief Financial Officer

(Authorized Officer and Principal Financial and Accounting Officer)

Date: February 28, 2024

Pursuant to the requirements of the Securities Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated.

Name and Signature	Title	Date
Ryan L. Pape /s/ Ryan L. Pape	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2024
/s/ Barry R. Wood Barry R. Wood	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2024
* Stacy L. Bogart	Director	February 28, 2024
* Richard K. Crumly	Director	February 28, 2024
* Michael A. Klonne	Director	February 28, 2024
* John F. North	Director	February 28, 2024

*By: /s/ Babatunde Awodiran

Babatunde Awodiran

Attorney-in-fact