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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from to________________

Microvast Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**001-38826**	**83-2530757**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

12603 Southwest Freeway, Suite 210 Stafford, Texas	**77477**
(Address Of Principal Executive Offices)	(Zip Code)

(281) 491-9505
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, par value $0.0001 per share	MVST	The Nasdaq Stock Market LLC
Redeemable warrants, exercisable for shares of common stock at an exercise price of $11.50 per share	MVSTW	The Nasdaq Stock Market LLC

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 x No o

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 x No o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	x
Emerging growth company	x		

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. o

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

As of November 7, 2022, there were 309,292,067 shares of the Company's common stock, par value $0.0001, issued and outstanding.

MICROVAST HOLDINGS, INC.
FORM 10-Q
For the Quarter Ended September 30, 2022

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report ("Report") contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about future financial and operating results, our objectives, expectations and intentions with respect to future operations, products and services; and other statements identified by words such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "projection," "outlook" or words of similar meaning. These forward-looking statements include, but are not limited to, statements regarding our industry and market sizes, and future opportunities for us. Such forward-looking statements are based upon the current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. Actual results and the timing of events may differ materially from the results anticipated in these forward-looking statements.

There are important risks, uncertainties, events and factors that could cause our actual results or performance to differ materially from those in the forward-looking statements contained in this document, including:

- risks of operations in the People's Republic of China (the "PRC" or "China");
- the impact of the ongoing COVID-19 pandemic;
- the conflict between Russia and Ukraine and any restrictive actions that have been or may be taken by the United States (the "U.S.") and/or other countries in response thereto, such as sanctions or export controls;
- risks related to cybersecurity and data privacy;
- the impact of inflation and rising interest rates;
- changes in availability and price of raw materials;
- changes in the highly competitive market in which we compete, including with respect to our competitive landscape, technology evolution or regulatory changes;
- changes in the markets that we target;
- heightened awareness of environmental issues and concern about global warming and climate change;
- the risk that we may not be able to execute our growth strategies or achieve profitability;
- the risk that we are unable to secure or protect our intellectual property;
- the risk that we may experience effects from global supply chain challenges, including delays in delivering our products to our customers;
- the risk that our customers or third-party suppliers are unable to meet their obligations fully or in a timely manner;
- the risk that our customers will adjust, cancel or suspend their orders for our products;
- the risk that we will need to raise additional capital to execute our business plan, which may not be available on acceptable terms or at all;
- the risk of product liability or regulatory lawsuits or proceedings relating to our products or services;
- the risk that we may not be able to develop and maintain effective internal controls; and
- the outcome of any legal proceedings that may be instituted against us or any of our directors or officers.

The foregoing list of factors is not exhaustive and new factors may emerge from time to time that could also affect actual performance and results. For more information, please see the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2021 in Part I, Item 1A and in the Registration Statement on Form S-3, (File No. 333-258978), which was initially filed on July 28, 2022, and as further amended.

Actual results, performance or achievements may differ materially, and potentially adversely, from any forward-looking statements and the assumptions on which those forward-looking statements are based. There can be no assurance that the data contained herein is reflective of future performance to any degree. You are cautioned not to place undue reliance on forward-looking statements as a predictor of future performance as forward-looking statements are based on estimates and assumptions that are inherently subject to various significant risks, uncertainties and other factors, many of which are beyond our control.

All information set forth herein speaks only as of the date hereof, and we disclaim any intention or obligation to update any forward-looking statements as a result of developments occurring after the date hereof except as may be required under applicable securities laws. Forecasts and estimates regarding our industry and end markets are based on sources we believe to be reliable, however there can be no assurance these forecasts and estimates will prove accurate in whole or in part.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	December 31, 2021	September 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 480,931	$ 295,816
Restricted cash, current	55,178	83,179
Accounts receivable (net of allowance for credit losses of $5,005 and $5,436 as of December 31, 2021 and September 30, 2022, respectively)	88,717	82,707
Notes receivable	11,144	4,505
Inventories	53,424	82,262
Prepaid expenses and other current assets	17,127	19,060
Amount due from related parties	85	—
Total Current Assets	**706,606**	**567,529**
Restricted cash, non-current	—	36,704
Property, plant and equipment, net	253,057	286,346
Land use rights, net	14,008	12,328
Acquired intangible assets, net	1,882	1,696
Operating lease right-of-use assets	—	15,509
Other non-current assets	19,738	52,816
Total Assets	**$ 995,291**	**$ 972,928**
Liabilities		
Current liabilities:		
Accounts payable	$ 40,408	$ 35,972
Notes payable	60,953	72,811
Accrued expenses and other current liabilities	58,740	79,520
Advance from customers	1,526	6,589
Short-term bank borrowings	13,301	7,029
Income tax payables	666	655
Bonds payable-current	—	29,259
Total Current Liabilities	**175,594**	**231,835**
Long-term bonds payable	73,147	43,888
Long-term bank borrowings	—	37,956
Warrant liability	1,105	184
Share-based compensation liability	18,925	115

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS - continued
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	December 31, 2021	September 30, 2022
Operating lease liabilities	—	13,530
Other non-current liabilities	39,822	29,564
Total Liabilities	**$ 308,593**	**$ 357,072**
Commitments and contingencies (Note 16)		
Shareholders' Equity		
Common Stock (par value of US$0.0001 per share, 750,000,000 and 750,000,000 shares authorized as of December 31, 2021 and September 30, 2022; 300,530,516 and 309,292,067 shares issued, and 298,843,016 and 307,604,567 shares outstanding as of December 31, 2021 and September 30, 2022)	$ 30	$ 31
Additional paid-in capital	1,306,034	1,398,171
Statutory reserves	6,032	6,032
Accumulated deficit	(632,099)	(757,467)
Accumulated other comprehensive income/(loss)	6,701	(30,911)
Total Shareholders' Equity	**686,698**	**615,856**
Total Liabilities and Shareholders' Equity	**$ 995,291**	**$ 972,928**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Revenues	$ 36,894	$ 38,616	$ 85,204	$ 139,698
Cost of revenues	(72,779)	(36,623)	(129,100)	(132,851)
Gross (loss)/profit	**(35,885)**	**1,993**	**(43,896)**	**6,847**
Operating expenses:				
General and administrative expenses	(57,058)	(22,585)	(67,810)	(83,021)
Research and development expenses	(13,518)	(11,457)	(23,199)	(33,010)
Selling and marketing expenses	(7,380)	(5,561)	(14,242)	(17,369)
Total operating expenses	(77,956)	(39,603)	(105,251)	(133,400)
Subsidy income	545	520	2,676	1,233
Loss from operations	**(113,296)**	**(37,090)**	**(146,471)**	**(125,320)**
Other income and expenses:				
Interest income	97	870	304	1,604
Interest expense	(1,247)	(774)	(4,630)	(2,465)
Loss on changes in fair value of convertible notes	(3,018)	—	(9,861)	—
Gain on changes in fair value of warrant liability	1,113	101	1,113	921
Other (loss) income, net	(19)	349	25	758
Loss before provision for income taxes	(116,370)	(36,544)	(159,520)	(124,502)
Income tax expense	(106)	—	(324)	—
Net loss	**$ (116,476)**	**$ (36,544)**	**$ (159,844)**	**$ (124,502)**
Less: Accretion of Series C1 Preferred	251	—	2,257	—
Less: Accretion of Series C2 Preferred	570	—	5,132	—
Less: Accretion of Series D1 Preferred	1,190	—	10,708	—
Less: Accretion for noncontrolling interests	1,516	—	9,523	—
Net loss attributable to Common Stock shareholders of Microvast Holdings, Inc.	**$ (120,003)**	**$ (36,544)**	**$ (187,464)**	**$ (124,502)**
Net loss per share attributable to Common Stock shareholders of Microvast Holdings, Inc.				
Basic and diluted	$ (0.49)	$ (0.12)	$ (1.27)	$ (0.41)
Weighted average shares used in calculating net loss per share of common stock				
Basic and diluted	243,861,780	305,977,372	147,836,650	301,821,464

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2022**	**2021**	**2022**
Net loss	$ (116,476)	$ (36,544)	$ (159,844)	$ (124,502)
Foreign currency translation adjustment	(3,130)	(21,002)	(2,373)	(37,612)
Comprehensive loss	$ (119,606)	$ (57,546)	$ (162,217)	$ (162,114)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	Three Months Ended September 30, 2021						
	Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other Comprehensive Income (loss)	Statutory reserves	Total Microvast Holdings, Inc. Shareholders' (Deficit)/Equity
	Shares	Amount					
Balance as of June 30, 2021	99,028,297	$ 6	$ —	$ (465,457)	$ 8,113	$ 6,032	$ (451,306)
Net loss	—	—	—	(116,476)	—	—	(116,476)
Accretion for Series C1 Preferred	—	—	—	(251)	—	—	(251)
Accretion for Series C2 Preferred	—	—	—	(570)	—	—	(570)
Accretion for Series D1 Preferred	—	—	—	(1,190)	—	—	(1,190)
Accretion for redeemable noncontrolling interests	—	—	—	(658)	—	—	(658)
Accretion for the exiting noncontrolling interests	—	—	—	(858)	—	—	(858)
Issuance of common stock upon the reverse recapitalization, net of issuance costs of $42.8 million	191,254,950	23	1,241,648	—	—	—	1,241,671
Share-based compensation	8,551,647	1	49,551	—	—	—	49,552
Foreign currency translation adjustments	—	—	—	—	(3,130)	—	(3,130)
Balance as of September 30, 2021	298,834,894	$ 30	$ 1,291,199	$ (585,460)	$ 4,983	$ 6,032	$ 716,784

	Nine Months Ended September 30, 2021						
	Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other Comprehensive Income (loss)	Statutory reserves	Total Microvast Holdings, Inc. Shareholders' (Deficit)/Equity
	Shares	Amount					
Balance as of December 31, 2020	99,028,297	$ 6	$ —	$ (397,996)	$ 7,356	$ 6,032	$ (384,602)
Net loss	—	—	—	(159,844)	—	—	(159,844)
Accretion for Series C1 Preferred	—	—	—	(2,257)	—	—	(2,257)
Accretion for Series C2 Preferred	—	—	—	(5,132)	—	—	(5,132)
Accretion for Series D1 Preferred	—	—	—	(10,708)	—	—	(10,708)
Accretion for redeemable noncontrolling interests	—	—	—	(5,841)	—	—	(5,841)
Accretion for the exiting noncontrolling interests	—	—	—	(3,682)	—	—	(3,682)
Issuance of common stock upon the reverse recapitalization, net of issuance costs of $42.8 million	191,254,950	23	1,241,648	—	—	—	1,241,671
Share-based compensation	8,551,647	1	49,551	—	—	—	49,552
Foreign currency translation adjustments	—	—	—	—	(2,373)	—	(2,373)
Balance as of September 30, 2021	298,834,894	$ 30	$ 1,291,199	$ (585,460)	$ 4,983	$ 6,032	$ 716,784

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY - continued
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	Three Months Ended September 30, 2022							
	Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other Comprehensive Income (loss)	Statutory reserves	Total Microvast Holdings, Inc. Shareholders' Equity
	Shares	Amount					
Balance as of June 30, 2022	300,859,266	$ 30	$ 1,378,774	$ (720,923)	$ (9,909)	$ 6,032	$ 654,004
Net loss	—	—	—	(36,544)	—	—	(36,544)
Issuance of common stock in connection with vesting of share-based awards	6,745,301	1	(1)	—	—	—	—
Share-based compensation	—	—	19,398	—	—	—	19,398
Foreign currency translation adjustments	—	—	—	—	(21,002)	—	(21,002)
Balance as of September 30, 2022	307,604,567	$ 31	$ 1,398,171	$ (757,467)	$ (30,911)	$ 6,032	$ 615,856

	Nine Months Ended September 30, 2022						
	Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other Comprehensive Income (loss)	Statutory reserves	Total Microvast Holdings, Inc. Shareholders' Equity
	Shares	Amount					
Balance as of December 31, 2021	298,843,016	$ 30	$ 1,306,034	$ (632,099)	$ 6,701	$ 6,032	$ 686,698
Net loss	—	—	—	(124,502)	—	—	(124,502)
Cumulative effect adjustment related to opening retained earnings for adoption of ASU2016-13, Financial instruments- Credit losses (Topic 326)	—	—	—	(866)	—	—	(866)
Issuance of common stock in connection with vesting of share-based awards	8,761,551	1	(1)	—	—	—	—
Share-based compensation	—		92,138	—	—	—	92,138
Foreign currency translation adjustments	—	—	—	—	(37,612)	—	(37,612)
Balance as of September 30, 2022	307,604,567	$ 31	$ 1,398,171	$ (757,467)	$ (30,911)	$ 6,032	$ 615,856

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	Nine Months Ended September 30,	
	2021	**2022**
Cash flows from operating activities		
Net loss	$ (159,844)	$ (124,502)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposal of property, plant and equipment	6	11
Depreciation of property, plant and equipment	14,398	15,161
Amortization of land use right and intangible assets	499	420
Noncash lease expenses	—	1,662
Share-based compensation	58,290	72,925
Changes in fair value of warrant liability	(1,113)	(921)
Changes in fair value of convertible notes	9,861	—
Allowance of credit losses	261	337
Provision for obsolete inventories	12,667	3,148
Impairment loss from property, plant and equipment	867	1,546
Product warranty	44,610	8,263
Changes in operating assets and liabilities:		
Notes receivable	10,782	1,386
Accounts receivable	9,425	(5,024)
Inventories	(15,127)	(39,517)
Prepaid expenses and other current assets	(6,874)	(3,764)
Amount due from/to related parties	(128)	85
Operating lease right-of-use assets	—	(19,284)
Other non-current assets	52	216
Notes payable	6,868	19,942
Accounts payable	(5,944)	(529)
Advance from customers	(130)	5,608
Accrued expenses and other liabilities	(6,371)	(12,203)
Operating lease liabilities	—	15,389
Other non-current liabilities	2,292	1,050
Net cash used in operating activities	**(24,653)**	**(58,595)**
Cash flows from investing activities		
Purchases of property, plant and equipment	(40,718)	(84,722)
Proceeds on disposal of property, plant and equipment	—	3
Net cash used in investing activities	**(40,718)**	**(84,719)**
Cash flows from financing activities		
Proceeds from borrowings	26,603	58,708
Repayment of bank borrowings	(15,665)	(24,482)
Loans borrowing from related parties	8,426	—
Repayment of related party loans	(8,426)	—
Merger and Private Investment in Public Equity (“PIPE”) financing	747,791	—

MICROVAST HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

	Nine Months Ended September 30,	
	2021	**2022**
Payment for transaction fee in connection with the merger	(42,821)	—
Payment to exited noncontrolling interests	(139,038)	—
Issuance of convertible notes	57,500	—
Net cash generated from financing activities	**634,370**	**34,226**
Effect of exchange rate changes	2,314	(11,322)
Decrease in cash, cash equivalents and restricted cash	571,313	(120,410)
Cash, cash equivalents and restricted cash at beginning of the period	**41,196**	**536,109**
Cash, cash equivalents and restricted cash at end of the period	**$ 612,509**	**$ 415,699**

	Nine Months Ended September 30,	
	2021	**2022**
Reconciliation to amounts on consolidated balance sheets		
Cash and cash equivalents	$ 572,609	$ 295,816
Restricted cash	39,900	119,883
Total cash, cash equivalents and restricted cash	**$ 612,509**	**$ 415,699**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MICROVAST HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Microvast Holdings, Inc. ("Microvast" or the "Company") and its subsidiaries (collectively, the "Group") are primarily engaged in developing, manufacturing, and selling electronic power products for electric vehicles primarily in the Asia & Pacific region and Europe.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and use of estimates

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Security and Exchange Commission and U.S. generally accepted accounting standards ("U.S. GAAP") for interim financial reporting. Accordingly, certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. GAAP have been omitted from these interim financial statements.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the period ended December 31, 2021 included in the Company's Annual Report on Form 10-K filed with the SEC on March 29, 2022, which provides a more complete discussion of the Company's accounting policies and certain other information. In the opinion of the management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (which include normal recurring adjustments) necessary for a fair statement of financial results for the interim periods presented. The Company believes that the disclosures are adequate to make the information presented not misleading.

The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending December 31, 2022.

The financial information as of December 31, 2021 included on the condensed consolidated balance sheets is derived from the Group's audited consolidated financial statements for the year ended December 31, 2021.

Except for the adoption of ASU 2016-02, Leases (Topic 842) and ASU 2016-13, Financial Instruments — Credit Losses (Topic 326) on January 1, 2022, there have been no significant changes to the significant accounting policies disclosed in Note 2 of the audited consolidated financial statements as of December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020, and 2019.

Significant accounting estimates reflected in the Group's financial statements include allowance for credit losses, provision for obsolete inventories, impairment of long-lived assets, valuation allowance for deferred tax assets, product warranty, fair value measurement of warrant liability and share based compensation.

All intercompany transactions and balances have been eliminated upon consolidation.

On July 23, 2021 (the "Closing Date"), Tuscan Holdings Corp. ("Tuscan"), consummated the previously announced merger with Microvast, Inc., a Delaware corporation, pursuant to the Agreement and Plan of Merger (the "Merger Agreement") dated February 1, 2021, between Tuscan, Microvast, Inc. and TSCN Merger Sub Inc., a Delaware corporation ("Merger Sub"), pursuant to which the Merger Sub merged with and into Microvast, Inc., with Microvast, Inc. surviving the merger (the "Business Combination," and, collectively with the other transactions described in the Merger Agreement, the "Reverse Recapitalization"). As a result of the Business Combination, Tuscan was renamed "Microvast Holdings, Inc."

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of presentation and use of estimates-continued

The Business Combination is accounted for as a reverse recapitalization under U.S. GAAP. This determination is primarily based on (1) Microvast, Inc.'s stockholders comprising a relative majority of the voting power of the Company and having the ability to nominate the members of the Board, (2) Microvast, Inc.'s operations prior to the Business Combination comprising the only ongoing operations of the Company, and (3) Microvast, Inc.'s senior management comprising a majority of the senior management of the Company. Under this method of accounting, Tuscan is treated as the "acquired" company for financial reporting purposes. Accordingly, the financial statements of the Company represent a continuation of the financial statements of Microvast, Inc. with the Business Combination being treated as the equivalent of Microvast, Inc. issuing stock for the net assets of Tuscan, accompanied by a recapitalization. The net assets of Tuscan are stated at historical costs, with no goodwill or other intangible assets recorded and are consolidated with Microvast Inc.'s financial statements on the Closing Date. Operations prior to the Business Combination are presented as those of Microvast, Inc. The shares and net loss per share available to holders of the Company's Common Stock, prior to the Business Combination, have been retroactively restated as shares reflecting the Common Exchange Ratio (as defined below) established in the Business Combination Agreement.

Each of the options to purchase Microvast, Inc.'s common stock that was outstanding before the Business Combination was converted into options to acquire Common Stock by computing the number of shares and converting the exercise price based on the exchange ratio of 160.3 (the "Common Exchange Ratio").

Emerging Growth Company

Pursuant to the JOBS Act, an emerging growth company (the "EGC") may adopt new or revised accounting standards that may be issued by FASB or the SEC either (i) within the same periods as those otherwise applicable to non-EGCs or (ii) within the same time periods as private companies. The Company intends to take advantage of the exemption for complying with new or revised accounting standards within the same time periods as private companies. Accordingly, the information contained herein may be different than the information provided by other public companies.

The Company also intends to take advantage of some of the reduced regulatory and reporting requirements of EGCs pursuant to the JOBS Act so long as the Company qualifies as an EGC, including, but not limited to, an exemption from the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

Revenue recognition

Nature of Goods and Services

The Group's revenue consists primarily of sales of lithium-ion batteries. The obligation of the Group is providing the electronic power products. Revenue is recognized at the point of time when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Group expects to be entitled to in exchange for the goods or services.

Disaggregation of revenue

For the three and nine months ended September 30, 2021 and 2022, the Group derived revenues from geographic regions as follows:

MICROVAST HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition-continued

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
People's Republic of China ('PRC')	*$ 19,720*	*$ 26,542*	*$ 52,012*	*$ 80,326*
Other Asia & Pacific countries	*12,072*	*7,394*	*21,348*	*45,420*
Asia & Pacific	**31,792**	**33,936**	**73,360**	**125,746**
Europe	**4,908**	**3,432**	**11,466**	**11,062**
U.S.	**194**	**1,248**	**378**	**2,890**
Total	**$ 36,894**	**$ 38,616**	**$ 85,204**	**$ 139,698**

Contract balances

Contract balances include accounts receivable and advances from customers. Accounts receivable represent cash not received from customers and are recorded when the rights to consideration is unconditional. The allowance for credit losses reflects the best estimate of probable losses inherent to the accounts receivable balance. Contract liabilities, recorded in advance from customers in the consolidated balance sheets, represent payment received in advance or payment received related to a material right provided to a customer to acquire additional goods or services at a discount in a future period. During the three months ended September 30, 2021 and 2022, the Group recognized $60 and $722 of revenue previously included in advance from customers as of July 1, 2021 and July 1, 2022, respectively. During the nine months ended September 30, 2021 and 2022, the Group recognized $1,381 and $550 of revenue previously included in advance from customers as of January 1, 2021 and January 1, 2022, respectively, which consist of payments received in advance related to its sales of lithium batteries.

Share-based compensation

Share-based payment transactions with employees are measured based on the grant date fair value of the equity instrument and recognized as compensation expense on a straight-line basis over the requisite service period, with a corresponding impact reflected in additional paid-in capital. For share-based awards granted with performance condition, the compensation cost is recognized when it is probable that the performance condition will be achieved. The Company reassesses the probability of achieving the performance condition at the end of each reporting date and records a cumulative catch-up adjustment for any changes to its assessment. For stock options and performance-based awards with a market condition, such as awards using total shareholder return ("TSR") as a performance metric, compensation expense is recognized on a straight-line basis over the estimated service period of the award, regardless of whether the market condition is satisfied. Forfeitures are recognized as they occur. Liability-classified awards are remeasured at their fair-value-based measurement as of each reporting date until settlement.

Operating leases

On January 1, 2022, the Company adopted ASU No. 2016-02, Leases (Topic 842) ("ASC 842"), using the modified retrospective transition method resulting in the recording of operating lease right-of-use (ROU) assets of $18,826 and operating lease liabilities of $18,776 upon adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The adoption of the new guidance did not have a material effect on the unaudited condensed consolidated statements of operations. As of September 30, 2022, the Company recorded operating lease right-of-use (ROU) assets of $15,509 and operating lease liabilities of $15,432, including current portion in the amount of $1,902, which was recorded under accrued expenses and other current liabilities on the balance sheet.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - continued

Operating leases-continued

The Company determines if an arrangement is a lease or contains a lease at lease inception. Operating leases are required to record in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. The Company has elected the package of practical expedients, which allows the Company not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. The Company also elected the practical expedient not to separate lease and non-lease components of contracts. Lastly, for lease assets other than real estate, such as printing machine and electronic appliances, the Company elected the short-term lease exemption as their lease terms are 12 months or less.

As the rate implicit in the lease is not readily determinable, the Company estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated in a portfolio approach to approximate the interest rate on a collateralized basis with similar terms and payments in a similar economic environment. Lease expense is recorded on a straight-line basis over the lease term.

Warrant Liability

The Company accounts for warrants in accordance with the guidance contained in ASC 815-40 under which the warrants do not meet the criteria for equity treatment and must be recorded as liabilities. As the Private Warrants (as defined in Note 10 – Warrants) meet the definition of a derivative as contemplated in ASC 815, the Company classifies the Private Warrants as liabilities. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the condensed statements of operations. The Private Warrants are valued using a Monte Carlo simulation model on the basis of the quoted market price of Public Warrants (as defined in Note 10 – Warrants).

Recent accounting pronouncements adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public companies, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In July 2018, ASU 2016-02 was updated with ASU 2018-11, Targeted Improvements to ASC 842, which provides entities with relief from the costs of implementing certain aspects of the new leasing standard. Specifically, under the amendments in ASU 2018-11, (1) entities may elect not to recast the comparative periods presented when transitioning to ASC 842 and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. Before ASU 2018-11 was issued, transition to the new lease standard required application of the new guidance at the beginning of the earliest comparative period presented in the financial statements.

As an EGC, the Company adopted this standard on January 1, 2022, and elected not to recast the comparative periods presented. The adoption did not have a material impact on the Company's unaudited condensed consolidated statements of operations or consolidated statements of cash flows, and the adoption of Topic 842 did not result in a cumulative-effect adjustment to retained earnings. Further information is disclosed in Note 12 – Leases.

(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements adopted-continued

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. As an EGC, the Company adopted this standard on January 1, 2022, using a modified retrospective transition method and did not restate the comparable periods, which resulted in a cumulative-effect adjustment to decrease the opening balance of retained earnings on January 1, 2022 by $866. The adoption did not have a material impact on the Company's unaudited condensed consolidated financial statements.

Recent accounting pronouncements not yet adopted

In August 2020, the FASB issued ASU 2020-06, "Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)-Accounting for Convertible Instruments and Contracts in an Entity's Own Equity." The ASU simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU also simplifies the diluted net income per share calculation in certain areas. For SEC filers, excluding smaller reporting companies, ASU 2020-06 is effective for fiscal years beginning after December 15, 2021 including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. For all other entities, ASU 2020-06 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company is currently evaluating the impact that ASU 2020-06 may have on the condensed consolidated financial statements and related disclosures.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31, 2021	September 30, 2022
Accounts receivable	$ 93,722	$ 88,143
Allowance for credit losses	(5,005)	(5,436)
Accounts receivable, net	**$ 88,717**	**$ 82,707**

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NOTE 3. ACCOUNTS RECEIVABLE-continued

Movement of allowance for credit losses was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Balance at beginning of the period	$ 4,743	$ 5,828	$ 5,047	$ 5,005
Cumulative-effect adjustment upon adoption of ASU2016-13, Financial instruments- Credit losses (Topic 326)	—	—	—	866
Charges (Reversal) of expenses	457	(43)	261	337
Write off	(415)	(12)	(546)	(165)
Exchange difference	11	(337)	34	(607)
Balance at end of the period	**$ 4,796**	**$ 5,436**	**$ 4,796**	**$ 5,436**

NOTE 4. INVENTORIES

Inventories consisted of the following:

	December 31, 2021	September 30, 2022
Work in process	$ 20,760	$ 39,739
Raw materials	25,266	30,632
Finished goods	7,398	11,891
Total	**$ 53,424**	**$ 82,262**

Provision for obsolete inventories at $6,569 and $1,229 were recognized for the three months ended September 30, 2021 and 2022, respectively. Provision for obsolete inventories at $12,667 and $3,148 were recognized for the nine months ended September 30, 2021 and 2022, respectively.

NOTE 5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31, 2021	September 30, 2022
Product warranty, current	$ 20,922	$ 12,350
Payables for purchase of property, plant and equipment	18,500	38,044
Other current liabilities	10,636	11,753
Accrued payroll and welfare	3,476	3,863
Accrued expenses	2,444	3,894
Interest payable	1,836	1,919
Other tax payable	926	5,795
Operating lease liabilities, current	—	1,902
Total	**$ 58,740**	**$ 79,520**

(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 6. PRODUCT WARRANTY

Movement of product warranty was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Balance at beginning of the period	$ 25,543	$ 43,703	$ 19,356	$ 58,458
Provided during the period	35,553	2,028	44,610	8,263
Utilized during the period	(9,229)	(4,357)	(12,099)	(22,957)
Exchange difference	—	(2,467)	—	(4,857)
Balance at end of the period	**$ 51,867**	**$ 38,907**	**$ 51,867**	**$ 38,907**

	December 31, 2021	September 30, 2022
Product warranty – current	$ 20,922	$ 12,350
Product warranty – non-current	37,536	26,557
Total	**$ 58,458**	**$ 38,907**

NOTE 7. BANK BORROWINGS

On September 27, 2022, the Group entered into a $111 million (RMB800 million) loan facilities agreement with a group of lenders led by a PRC Bank (the "2022 Facility Agreement"). The 2022 Facility Agreement has an effective drawdown period until June 9, 2023 and the interest rate is prime plus 115 basis points where prime is based on Loan Prime Rate published by the National Inter-bank Funding Center of the PRC. The interest is payable on a quarterly basis. The loan facilities can only be used for the construction project of manufacturing capacity expansion at the Group's facility located in Huzhou, China. The 2022 Facility Agreement contains certain customary restrictive covenants, including but not limited to disposal of assets and dividend distribution without consent of the lender, and certain customary events of default.

The repayment schedule of the 2022 Facility Agreement is listed in the below table. As of September 30, 2022, the Group had outstanding borrowings of $42,173 under the 2022 Facility Agreement.

Repayment Date	Repayment Amount
June 10, 2023	$4.2 million (RMB30 million)
December 10, 2023	$9.8 million (RMB70 million)
June 10, 2024	$14.1 million (RMB100 million)
December 10, 2024	$14.1 million (RMB100 million)
June 10, 2025	$14.1 million (RMB100 million)
December 10, 2025	$14.1 million (RMB100 million)
June 10, 2026	$21.1 million (RMB150 million)
December 10, 2026	$21.1 million (RMB150 million)

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NOTE 7. BANK BORROWINGS-continued

The Group also entered into short-term loan agreements and bank facilities with Chinese banks. The original terms of the loans from Chinese banks are within 12 months and the interest rates range from 4.50% to 4.75% per annum.

Changes in bank borrowings are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Beginning balance	$ 26,458	$ 8,807	$ 12,184	$ 13,301
Proceeds from bank borrowings	—	45,242	26,603	58,708
Repayments of principal	(3,400)	(7,150)	(15,665)	(24,482)
Exchange difference	(207)	(1,914)	(271)	(2,542)
Ending balance	**$ 22,851**	**$ 44,985**	**$ 22,851**	**$ 44,985**

Balance of bank borrowings includes:	December 31, 2021	September 30, 2022
Current	$ 13,301	$ 7,029
Non-current	—	37,956
Total	**$ 13,301**	**$ 44,985**

Certain assets of the Group have been pledged to secure the above bank facilities granted to the Group. The aggregate carrying amount of the assets pledged by the Group as of December 31, 2021 and September 30, 2022 are as follows:

	December 31, 2021	September 30, 2022
Buildings	$ 31,361	$ 26,836
Machinery and equipment	7,376	—
Land use rights	4,470	12,328
Total	**$ 43,207**	**$ 39,164**

NOTE 8. OTHER NON-CURRENT LIABILITIES

	December 31, 2021	September 30, 2022
Product warranty - non-current	$ 37,536	$ 26,557
Deferred subsidy income- non-current	2,286	3,007
Total	**$ 39,822**	**$ 29,564**

(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 9. BONDS PAYABLE

	December 31, 2021	September 30, 2022
Bonds payable-current		
Huzhou Saiyuan Equity Investment Partnership Firm (Limited Partnership) ("Huzhou Saiyun")	$ —	$ 29,259
Total	**$ —**	**$ 29,259**
Long–term bonds payable		
Huzhou Saiyuan	$ 73,147	$ 43,888
Total	**$ 73,147**	**$ 43,888**

On December 29, 2018, MPS signed an agreement with Huzhou Saiyuan, an entity established by the local government, to issue convertible bonds to Huzhou Saiyuan for a total consideration of $87,776 (RMB600 million). The Company pledged its 12.39% equity holding over MPS to Huzhou Saiyuan to facilitate the issuance of convertible bonds. As of September 30, 2022, the subscription and outstanding balance of the convertible bonds was $73,147 (RMB500 million).

If the subscribed bonds are not repaid by the maturity date, Huzhou Saiyuan has the right to dispose of the equity interests pledged by the Company in proportion to the amount of matured bonds, or convert the bond to the equity interests of MPS within 60 days after the maturity date. If Huzhou Saiyuan decides to convert the bonds to equity interests of MPS, the equity interests pledged would be released and the convertible bonds should be converted to the equity interest of MPS based on the entity value of MPS at $950,000.

On September 28, 2020, MPS signed a supplemental agreement for extension on repayment of convertible bonds to Huzhou Saiyuan, and the terms on repayments and interests are as follows.

Issuance Date	Subscribed Amount	Maturity Date	Repayment Amount	Annual Interest Rate
February 1, 2019	$29,259 (RMB200 million)	June 30, 2023	$29,259 (RMB200 million)	3%~4%
December 31, 2018	$29,259 (RMB200 million)	April 28, 2024	$14,629 (RMB100 million)	0%~4%
		July 11, 2024	$7,315 (RMB50 million)	0%~4%
		October 1, 2024	$7,315 (RMB50 million)	0%~4%
January 1, 2020	$14,629 (RMB100 million)	April 13, 2026	$14,629 (RMB100 million)	3%~4%

NOTE 9. BONDS PAYABLE-continued

In September 2022, MPS entered into supplement agreements with Huzhou Saiyuan to change the repayment schedule as follows: (i) $14,629 (RMB100 million) will be repaid, together with interest accrued, on or before November 10, 2022, (ii) $14,630 (RMB100 million) will be repaid, together with interest accrued, on or before December 31, 2022, and (iii) the remaining $43,888 (RMB300 million) will be repaid, together with interest accrued, on or before January 31, 2027. The applicable interest rate will be increased to 12% if the Group is in default on the repayment of the bonds at the respective due dates. The remaining terms and conditions of the convertible bonds are unchanged.

Convertible Notes at Fair Value (the “Bridge Notes”)

On January 4, 2021, the Company entered into a note purchase agreement to issue $57,500 convertible promissory notes to certain investors, fully due and payable on the third anniversary of the initial closing date. The notes bore no interest, provided, however, if a liquidity event (“Liquidity Event”) had not occurred prior to June 30, 2022, an interest rate of 6% would be applied retrospectively from the date of initial closing. The conversion of the promissory notes was contingent upon the occurrence of a Private Investment in Public Equity (“PIPE”) financing, a Liquidity Event or a new financing after June 30, 2022 but before the maturity date (“Next Financing”).

The fair value option was elected for the measurement of the convertible notes. Changes in fair value, a loss of $3,018 and $9,861 were recorded in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2021, respectively.

On July 23, 2021, upon the completion of the Business Combination between Microvast, Inc. and Tuscan, the convertible promissory notes were converted into 6,736,106 shares of Common Stock of the combined company.

NOTE 10. WARRANTS

The Company assumed 27,600,000 publicly-traded warrants ("Public Warrants") and 837,000 private placement warrants issued to Tuscan Holdings Acquisition LLC (the "Sponsor") and EarlyBirdCapital, Inc. ("EarlyBirdCapital") ("Private Warrants" and together with the Public Warrants, the "Warrants") upon the Business Combination, all of which were issued in connection with Tuscan's initial public offering (other than 150,000 Private Warrants that were issued in connection with the closing of the Business Combination) and entitle the holder to purchase one share of the Company's Common Stock at an exercise price of $11.50 per share. During the three and nine months ended September 30, 2022, none of the Public Warrants or the Private Warrants were exercised.

The Public Warrants became exercisable 30 days after the completion of the Business Combination. No Warrants were exercisable for cash until the Company registered Common Stock issuable upon exercise of the Warrants with the SEC. Since the registration of shares was not completed within 90 days following the Business Combination, warrant holders were able to exercise Warrants on a net-share settlement basis until the registration statement became effective on June 8, 2022. The Public Warrants will expire five years after the completion of the Business Combination or earlier upon redemption or liquidation.

Once the Public Warrants became exercisable, the Company may redeem the Public Warrants:

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon not less than 30 days' prior written notice of redemption;
- if, and only if, the reported last sale price of the Company's Common Stock equals or exceeds $18.00 per share for any 20-trading days within a 30-trading day period ending on the third business day prior to the notice of redemption to the warrant holders; and
- if, and only if, there is a current registration statement in effect with respect to the shares of Common Stock underlying the warrants.

The Company classified the Public Warrants as equity. If the Company calls the Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Public Warrants to do so on a net-share settlement basis.

The Private Warrants are identical to the Public Warrants, except that the Private Warrants will be exercisable for cash or on a net-share settlement basis, at the holder's option, and be non-redeemable so long as they are held by the initial purchasers or their permitted transferees. If the Private Warrants are held by someone other than the initial purchasers or their permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants. In addition, so long as the Private Warrants are held by EarlyBirdCapital and its designee, the Private Warrants will expire five years from the effective date of the Business Combination.

The exercise price and number of shares of Common Stock issuable upon exercise of the Warrants may be adjusted in certain circumstances including in the event of a stock dividend, or recapitalization, reorganization, merger or consolidation. However, the Warrants will not be adjusted for issuance of Common Stock at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Warrants.

The private warrant liability was remeasured at fair value as of September 30, 2022, resulting in a gain of $101 and $921 for the three and nine months ended September 30, 2022, classified within changes in fair value of warrant liability in the unaudited condensed consolidated statements of operations, respectively.

NOTE 10. WARRANTS - continued

The Private Warrants were valued using the following assumptions under the Monte Carlo Model that assumes optimal exercise of the Company's redemption option at the earliest possible date:

	September 30, 2022
Market price of public stock	$ 1.81
Exercise price	$ 11.50
Expected term (years)	3.82
Volatility	67.38 %
Risk-free interest rate	4.09 %
Dividend rate	0.00 %

The market price of public stock is the quoted market price of the Company's Common Stock as of the valuation date. The exercise price is extracted from the warrant agreements. The expected term is derived from the exercisable years based on the warrant agreements. The expected volatility is a blend of implied volatility from the Company's own public warrant pricing and the average volatility of peer companies. The risk-free interest rate was estimated based on the market yield of US Government Bond with maturity close to the expected term of the warrants. The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the warrants.

NOTE 11. FAIR VALUE MEASUREMENT

Measured or disclosed at fair value on a recurring basis

The Group measured its financial assets and liabilities, including cash and cash equivalents, restricted cash and warrant liability at fair value on a recurring basis as of December 31, 2021 and September 30, 2022. Cash and cash equivalents and restricted cash are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market. The fair value of the warrant liability is based on significant unobservable inputs, which represent Level 3 measurements within the fair value hierarchy. In determining the fair value of the warrant liability, the Company used the Monte Carlo Model that assumes optimal exercise of the Company's redemption option at the earliest possible date. See Note 10 – Warrants.

As of December 31, 2021 and September 30, 2022, information about inputs for the fair value measurements of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

	Fair Value Measurement as of December 31, 2021			
(In thousands)	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Cash and cash equivalents	$ 480,931	—	—	$ 480,931
Restricted cash	55,178	—	—	55,178
Total financial asset	**$ 536,109**	**—**	**—**	**$ 536,109**
Warrant liability	$ —	—	1,105	$ 1,105
Total financial liability	**$ —**	**—**	**1,105**	**$ 1,105**

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NOTE 11. FAIR VALUE MEASUREMENT - continued

Measured or disclosed at fair value on a recurring basis-continued

(In thousands)	Fair Value Measurement as of September 30, 2022			
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 295,816	—	—	$ 295,816
Restricted cash	$ 119,883	—	—	$ 119,883
Total financial asset	**$ 415,699**	**—**	**—**	**$ 415,699**
Warrant liability	$ —	—	184	$ 184
Total financial liability	**$ —**	**—**	**184**	**$ 184**

The following is a reconciliation of the beginning and ending balances for Level 3 convertible notes during the nine months ended September 30, 2021:

(In thousands)	Convertible Notes
Balance as of December 31, 2020	$ —
Issuance of convertible notes	$ 57,500
Changes in fair value of convertible notes	$ 9,861
Conversion as of Merger	$ (67,361)
Balance as of September 30, 2021	$ —

The following is a reconciliation of the beginning and ending balances for Level 3 warrant liability during the nine months ended September 30, 2021 and 2022:

(In thousands)	Nine Months Ended September 30,	
	2021	2022
Balance at the beginning of the period	—	$ 1,105
Assumed warrant liability upon Merger	3,574	—
Changes in fair value	(1,113)	(921)
Balance at end of the period	$ 2,461	$ 184

Measured or disclosed at fair value on a nonrecurring basis

The Group measured the long-lived assets using the income approach—discounted cash flow method, when events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable.

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NOTE 12. LEASES

The Group has operating leases for office spaces and warehouses. Certain leases include renewal options and/or termination options, which are factored into the Group's determination of lease payments when appropriate.

Operating lease cost for the three and nine months ended September 30, 2022 was $743 and $2,290, respectively, which excluded cost of short-term contracts. Short-term lease cost for the three and nine months ended September 30, 2022 was $87 and $296, respectively.

As of September 30, 2022, the weighted average remaining lease term was 11.9 years and weighted average discount rate was 4.9% for the Group's operating leases.

Supplemental cash flow information of the leases were as follows:

		Nine months ended September 30, 2022
Cash payments for operating leases	$	2,330
Right-of-use assets obtained in exchange for new operating lease liabilities	$	452

The following is a maturity analysis of the annual undiscounted cash flows for lease liabilities as of September 30, 2022:

		As of September 30, 2022
Three months period ending December 31, 2022	$	709
2023	$	2,480
2024	$	1,870
2025	$	1,391
2026	$	1,369
2027	$	1,369
Thereafter	$	11,064
Total future lease payments	**$**	**20,252**
Less: Imputed interest	$	(4,820)
Present value of operating lease liabilities	**$**	**15,432**

NOTE 13. SHARE-BASED PAYMENT

On July 21, 2021, the Company adopted the Microvast Holdings, Inc. 2021 Equity Incentive Plan (the “2021 Plan”), effective upon the Closing Date. The 2021 Plan provides for the grant of incentive and non-qualified stock option, restricted stock units, restricted share awards, stock appreciation awards, and cash-based awards to employees, directors, and consultants of the Company. Options awarded under the 2021 Plan expire no more than 10 years from the date of grant. Concurrently with the closing of the Business Combination, the share awards granted under 2012 Share Incentive Plan of Microvast, Inc. (the "2012 Plan") were rolled over by removing original performance conditions and converting into options and capped non-vested share units with modified vesting schedules, using the Common Exchange Ratio of 160.3. The 2021 Plan reserved 5% of the fully-diluted shares of Common Stock outstanding immediately following the Closing Date plus the shares underlying awards rolled over from the 2012 Plan for issuance in accordance with the 2021 Plan’s terms.

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NOTE 13. SHARE-BASED PAYMENT - continued

On April 14, 2022, the Company's former Chief Financial Officer's ("Former CFO") employment with the Company terminated. Simultaneously, a transition services agreement was entered into between the Company and the Former CFO for the provision of advisory services to the Company with an initial term of 18 months commencing on the date of the Former CFO's termination of employment. Upon the Former CFO's termination of employment, all 1,122,100 stock options and 2,860,713 capped non-vested share units held by the Former CFO immediately vested in full and a $4,897 cash payment was made to the Former CFO related to the settlement of capped non-vested share units. The Former CFO's stock options remain exercisable until three months following the termination of his transition services agreement with the Company. Because he continues to provide advisory services to the Company, the Former CFO is an eligible person rendering services under the 2012 Plan, and the accelerated vesting and extended exercise period of his stock options were in accordance with the terms and conditions of the Former CFO's employment agreement and stock option award agreement. As such, the changes are not considered a modification under ASC 718. During the nine months ended September 30, 2022, $16,778 of share-based compensation expense was recognized in connection with the vesting of the Former CFO's awards.

Stock options

On April 14, 2022 and June 7, 2022, the Company granted 1,800,000 and 600,000 stock options to two new executive officers and two employees, subject to service conditions, respectively. The service conditions require the participant’s continued employment with the Company through the applicable vesting dates.

On July 7, 2022, the Company granted 500,000 stock options to an employee with an exercise price of $2.42. The vesting of these options is subject to a service condition of continued employment with the Company through the applicable vesting dates and performance condition which requires the achievement of certain performance criteria as defined in the award agreement. The criteria is probable to achieve and therefore related expenses were recognized.

The grant date fair value of the stock options was determined using the Black Scholes model with the following assumptions:

	Nine months ended September 30, 2022
Exercise price	$ 2.42 ~ $ 5.69
Expected terms (years)	6.00
Volatility	56.16 % ~ 57.84 %
Risk-free interest rate	2.79 % ~ 3.02 %
Expected dividend yields	0.00%
Weighted average fair value of options granted	$ 1.33 ~ $ 3.19

The exercise prices for each award were extracted from the option agreements. The expected terms for each award were derived using the simplified method, and is estimated to occur at the midpoint of the vesting date and the expiration date. The volatility of the underlying common stock during the lives of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the expected term of the options. Risk-free interest rate was estimated based on the market yield of US Government Bonds with maturity close to the expected term of the options. The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

During the three and nine months ended September 30, 2022, the Company recorded share-based compensation expense of $14,081 and $46,043 related to the option awards, respectively.

(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 13. SHARE-BASED PAYMENT - continued

Stock options-continued

Stock options activity for the nine months ended September 30, 2021 and 2022 was as follows (all stock award activity was retroactively restated to reflect the conversion in July 2021):

Stock options life	Number of Shares	Weighted Average Exercise Price (US$)	Weighted Average Grant Date Fair Value (US$)	Weighted Average Remaining Contractual Life
Outstanding as of December 31, 2020	34,737,967	$ 6.19	$ 2.92	9.0
Forfeited	(1,186,220)	6.28	3.13	
Outstanding as of September 30, 2021	33,551,747	$ 6.19	$ 4.95	8.2
Expected to vest and exercisable as of September 30, 2021	33,551,747	$ 6.19	$ 4.95	8.2
Outstanding as of December 31, 2021	33,503,657	6.19	4.95	7.9
Grant	2,900,000	4.81	2.69	
Vested	(11,875,830)	6.20	5.00	
Forfeited	(227,092)	6.28	4.86	
Outstanding as of September 30, 2022	24,300,735	$ 6.02	$ 4.70	7.0
Expected to vest and exercisable as of September 30, 2022	24,300,735	$ 6.02	$ 4.70	7.0

The total unrecognized equity-based compensation costs as of September 30, 2022 related to the stock options was $103,243, which is expected to be recognized over a weighted-average period of 1.9 years. The aggregate intrinsic value of the stock options as of September 30, 2022 was $0.

Capped Non-vested share units

The capped non-vested share units ("CRSUs") represent rights for the holder to receive cash determined by the number of shares granted multiplied by the lower of the fair market value and the capped price, which will be settled in the form of cash payments. The CRSUs were accounted for as liability classified awards.

On June 27, 2022, the Board of Directors and Compensation Committee approved a modification of the settlement terms of 20,023,699 CRSUs under the 2021 Plan from cash settlement to share settlement (the “Modification”). Pursuant to the Modification, on each vesting date, if the stock price is higher than the capped price, the number of shares to be issued will be calculated based on the following formula:

Number of shares to be issued = Capped price* Number of shares vested /Vesting date stock price

If the stock price is equal to or less than the capped price, the Company will grant a fixed number of shares on each vesting date based on the vesting schedule. All other terms of the CRSUs remain unchanged. The Modification resulted in a change of the CRSUs’ classification from liability to equity, as the predominant feature of the modified CRSUs was the granting of a fixed number of shares on each vesting date instead of a fixed monetary amount. The determination of the predominant feature was based on the estimated probability of how the awards will be settled using the Monte Carlo model.

At the Modification date, the Company reclassified the amounts previously recorded as a share-based compensation liability to additional paid-in capital. The modified CRSUs were accounted for as an equity award going forward from the date of the Modification with compensation expenses recognized for each tranche at the fair value measured on the modification date.

MICROVAST HOLDINGS, INC.
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NOTE 13. SHARE-BASED PAYMENT - continued

Capped Non-vested share units-continued

At the Modification date, the Company used the Monte Carlo valuation model in determining the fair value of the CRSUs with assumptions as follows:

	Modification Date	
Expected term (years)	0.07 ~	2.07
Volatility	50.93 % ~	73.89 %
Risk-free interest rate	1.15 % ~	3.05 %
Expected dividend yields	0.00%	

Expected term was the time left (in years) from the Modification date to the vesting date based on the terms of the applicable award agreements. The volatility of the underlying common stock was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the expected term of the awards. Risk-free interest rate was estimated based on the market yield of US Government Bonds with maturity close to the expected term of the awards. The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the awards.

During the three and nine months ended September 30, 2022, the Company recorded share-based compensation expense of $4,367 and $29,481, respectively, related to these CRSUs awards.

CRSUs' activity for the nine months ended September 30, 2021 and 2022 was as follows (all award activity was retroactively restated to reflect the conversion in July 2021):

	Number on Non-Vested Shares	Weighted Average Grant Date Fair Value per Share (US$)
Outstanding as of December 31, 2020	23,027,399	$ 0.93
Outstanding as of September 30, 2021	23,027,399	$ 8.74 [1]
Outstanding as of December 31, 2021	23,027,399	$ 8.74
Vested	(9,582,930)	$ 4.37
Outstanding as of September 30, 2022	13,444,469	$ 2.38

The total unrecognized equity-based compensation costs as of September 30, 2022 related to CRSUs was $15,798.

Restricted Stock Units

Following the Business Combination, the Company granted 693,232 restricted stock units (“RSUs”) and 1,274,222 performance-based restricted stock unit (“PSU”) awards subject to service, performance and/or market conditions. The service condition requires the participant’s continued services or employment with the Company through the applicable vesting date, and the performance condition requires the achievement of the performance criteria defined in the award agreement. The market condition is based on the Company’s TSR relative to a comparator group during a specified performance period.

[1] The amount represents the Modification date value per share as of July 25, 2021. As of the Modification date, the settled price was the capped price as described above.

(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 13. SHARE-BASED PAYMENT - continued

Restricted Stock Units-continued

The fair value of RSUs is determined by the market closing price of Common Stock at the grant date and is amortized over the vesting period on a straight-line basis. The fair value of PSUs that include vesting based on market conditions are estimated using the Monte Carlo valuation method. For PSU awards with performance conditions, share-based compensation expense is only recognized if the performance conditions become probable to be satisfied. Compensation cost for these awards is amortized on a straight-line basis over the vesting period based on the grant date fair value, regardless of whether the market condition is satisfied. Accordingly, the Company recorded share-based compensation expense of $345 and $1,048 related to these RSUs and $621 and $1,653 related to these PSUs during the three and nine months ended September 30, 2022, respectively.

The following assumptions were used for respective period to calculate the fair value of common stock to be issued under TSR awards on the date of grant using the Monte Carlo model:

	Nine months ended September 30, 2022
Expected term (years)	2.68
Volatility	59.50 %
Risk-free interest rate	2.72 %
Expected dividend yields	0.00 %

Expected term was derived based on the remaining time from the grant date through the end of the performance period. The volatility of the underlying common stock during the lives of the awards was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the expected term of the awards. Risk-free interest rate was estimated based on the market yield of US Government Bond with maturity close to the expected term of the awards. The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the awards.

The non-vested shares activity for the nine months ended September 30, 2021 and 2022 was as follows:

	Number of Non-Vested Shares	Weighted Average Grant Date Fair Value Per Share (US$)
Outstanding as of December 31, 2020	—	—
Grant	197,940	9.60
Vested	(6,157)	8.52
Outstanding as of September 30, 2021	191,783	9.63
Outstanding as of December 31, 2021	671,441	9.08
Grant	1,239,854	$ 4.93
Vested	(86,996)	$ 6.96
Forfeited	(58,126)	$ 7.47
Outstanding as of September 30, 2022	1,766,173	$ 6.33

The total unrecognized equity-based compensation costs as of September 30, 2022 related to the non-vested shares was $7,213.

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NOTE 13. SHARE-BASED PAYMENT - continued

The following summarizes the classification of share-based compensation:

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Cost of revenues	$ 1,964	$ 5,780
General and administrative expenses	12,834	55,528
Research and development expenses	3,193	10,981
Selling and marketing expenses	1,284	5,533
Construction in process	139	403
Total	**$ 19,414**	**$ 78,225**

NOTE 14. RELATED PARTY BALANCES AND TRANSACTIONS

Name	Relationship with the Group
Ochem Chemical Co., Ltd ("Ochem")	Controlled by CEO
Ochemate Material Technologies Co., Ltd ("Ochemate")	Controlled by CEO

(1) Related party transaction

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Raw material sold to Ochem	$ 113	$ —	$ 406	$ —

(2) Interest-free loans

MPS received certain interest-free loans from related parties, Ochemate and Ochem, for the nine months ended September 30, 2021 and 2022 with aggregated amounts of $8,426 and $0, respectively.

The outstanding balance for the amount due from Ochem was $85 as of December 31, 2021 and $0 as of September 30, 2022, respectively.

(In thousands of U.S. dollars, except share and per share data, or as otherwise noted)

NOTE 15. NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Numerator:				
Net loss attributable to common stock shareholders	$ (120,003)	$ (36,544)	$ (187,464)	$ (124,502)
Denominator:				
Weighted average common stock used in computing basic and diluted net loss per share	243,861,780	305,977,372	147,836,650	301,821,464
Basic and diluted net loss per share	$ (0.49)	$ (0.12)	$ (1.27)	$ (0.41)

For the three and nine months ended September 30, 2021 and 2022, the following Common Stock outstanding were excluded from the calculation of diluted net loss per share, as their inclusion would have been anti-dilutive for the periods prescribed.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Shares issuable upon exercise of stock options	33,641,132	27,032,668	33,869,470	31,529,919
Shares issuable upon vesting of non-vested shares	98,094	1,815,043	33,093	1,282,482
Shares issuable upon vesting of Capped non-vested shares	—	15,017,783	—	5,280,978
Shares issuable upon exercise of warrants	21,327,750	28,437,000	7,187,374	28,437,000
Shares issuable upon conversion of Series B2 Preferred	7,153,219	—	8,076,300	—
Shares issuable upon conversion of Series C1 Preferred	6,398,475	—	19,896,422	—
Shares issuable upon conversion of Series C2 Preferred	4,842,260	—	15,057,284	—
Shares issuable upon conversion of Series D1 Preferred	5,335,362	—	16,590,614	—
Shares issuable upon conversion of Series D2 Preferred	1,606,919	—	4,996,808	—
Shares issuable upon conversion of non-controlling interests of a subsidiary	4,125,761	—	12,829,289	—
Shares issuable upon vesting of Earn-out shares	14,999,991	19,999,988	5,054,942	19,999,988
Shares issuable that may be subject to cancellation	1,265,625	1,687,500	426,511	1,687,500

NOTE 16. COMMITMENTS AND CONTINGENCIES

Litigation - Matthew Smith

On September 4, 2017, Matthew Smith, a former employee of the Company, sent a demand letter alleging claims for breach of contract (involving stock options). On February 5, 2018, Mr. Smith filed suit against the Company asserting claims for breach of contract and asserting discrimination and retaliation claims. Mr. Smith sought the following relief: (1) a declaration that he owns 2,600 ordinary shares (the equivalent of 416,780 shares following the Business Combination) and (2) various damages and other equitable remedies over $1,000. The Company denied all allegations and wrongful conduct.

Following a jury trial in September 2022, the jury returned a unanimous verdict in favor of Microvast, Mr. Wu and Mr. Zheng. All claims by Mr. Smith against Microvast, Mr. Wu and Mr. Zheng have been dismissed with prejudice.

No accrual for contingency loss was recorded in the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2021 and 2022 related to this matter.

Capital commitments

Capital commitments for construction of property and purchase of property, plant and equipment were $260,513 as of September 30, 2022, which is mainly for the construction of lithium battery production lines.

NOTE 17. SUBSEQUENT EVENTS

U.S. Department of Energy Grant Funding - Polyaramid Separator Facility

In October 2022, the Company was notified by the U.S. Department of Energy ("DOE") that it had been selected, in collaboration with General Motors, to negotiate and receive $200 million in grant funding as part of President Biden's Bipartisan Infrastructure Law under the DOE's Battery Materials Processing and Battery Manufacturing initiative. The grant funding, together with additional funding to be arranged by the Company, is expected to support the construction of a new polyaramid separator manufacturing facility in the U.S. The specific terms and conditions of the grant funding remain under negotiation. Once finalized, the grant funding will remain subject to the conditions precedent and other terms and conditions to be agreed between the Company and the DOE.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

References in this Report to the "Company," "Microvast Holdings, Inc.," "Microvast," "our," "us" or "we" refer to Microvast Holdings, Inc. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited interim condensed financial statements and the notes thereto contained elsewhere in this report. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risks and uncertainties.

Business

We are a technology innovator for lithium ion batteries. We design, develop and manufacture battery systems for electric vehicles and energy storage that feature ultra-fast charging capabilities, long life and superior safety. Our vision is to solve the key constraints in electric vehicle development and in high-performance energy storage applications. We believe the ultra-fast charging capabilities of our battery systems make charging electric vehicles as convenient as fueling conventional vehicles. We believe that the long battery life of our battery systems also reduces the total cost of ownership of electric vehicles and energy storage applications.

We offer our customers a broad range of cell chemistries: lithium titanate oxide ("LTO"), lithium iron phosphate ("LFP"), nickel manganese cobalt version 1 ("NMC-1") and nickel manganese cobalt version 2 ("NMC-2"). Based on our customer's application, we design, develop and integrate the preferred chemistry into our cell, module, pack and container manufacturing capabilities. Our strategic priority is to offer these battery solutions for commercial vehicles and energy storage systems. We define commercial vehicles as light, medium, heavy-duty trucks, buses, trains, mining trucks, marine applications, automated guided and specialty vehicles. For energy storage applications, we focus on high-performance applications such as energy shifting, grid management and frequency regulation.

Additionally, as a vertically integrated battery company, we design, develop and manufacture the following battery components: cathode, anode, electrolyte and separator. We also intend to market our full concentration gradient ("FCG") cathode and polyamide separator to passenger car original equipment manufacturers ("OEMs") and consumer electronics manufacturers.

As of September 30, 2022, we had a backlog order of approximately $140.6 million for our battery systems, equivalent to approximately 477.4 megawatt hours ("MWh"), compared to a backlog order of approximately $52.7 million for our battery systems, equivalent to approximately 214.6 MWh, as of September 30, 2021. The backlog increase was a result of increased customer demand for our products. Our revenue for the nine months ended September 30, 2022 increased $54.5 million, or 64.0%, compared to the same period in 2021.

After initially focusing on the Asia & Pacific regions, we have expanded and continue to expand our presence and product promotion to Europe and the U.S. to capitalize on their rapidly growing electrification markets. We have many prototype projects ongoing with regard to sports cars, commercial vehicles, trucks, port equipment and marine applications with customers in the Western Hemisphere. In addition, we are jointly developing electric power-train solutions with leading commercial vehicle OEMs and a first-tier automotive supplier using LTO, NMC-1 and NMC-2 technologies.

Recent Developments

On October 3,2022, we launched our new energy division ("Microvast Energy"). The new division will design, develop and manufacture Battery Energy Storage Systems that are co-located with solar solutions or operate as stand-alone energy assets using our battery technology. The engineering, sales, marketing and customer care departments for Microvast Energy are headquartered in northern Colorado, United States.

Completion of the Business Combination

On July 23, 2021, Microvast Holdings, Inc. (formerly known as Tuscan Holdings Corp.) consummated the previously announced acquisition of Microvast, Inc., a Delaware corporation, pursuant to the Agreement and Plan of Merger dated February 1, 2021, between Tuscan Holdings Corp., Microvast and TSCN Merger Sub Inc., a Delaware corporation ("Merger Sub"), pursuant to which Merger Sub merged with and into Microvast, with Microvast surviving the merger (the "Business Combination").

Key Factors Affecting Our Performance

We believe that our future success will be dependent on several factors, including the factors discussed below. While these areas represent opportunities for us, they also represent challenges and risks that we must successfully address in order to continue the growth of our business and improve our results of operations.

Technology and Product Innovation

Our financial performance is driven by development and sales of new products with innovative technology. Our ability to develop innovative technology has been and will continue to be dependent on our dedicated research team. As part of our efforts to develop innovative technology, in October 2021, we expanded our research and development ("R&D") in Orlando by purchasing a 75,000 square foot facility dedicated to R&D. We plan to continue expanding our R&D presence in the U.S. We also plan to continue leveraging our knowledge base in the PRC and to continue expanding our R&D efforts there as well. We expect our results of operations will continue to be impacted by our ability to develop new products with improved performance and reduced ownership cost, as well as the cost of our R&D efforts.

Market Demand

Our revenue and profitability depend substantially on the demand for battery systems and battery components, which is driven by the growth of the commercial and passenger electric vehicle and energy storage markets. Many factors contribute to the development of the electric vehicles and energy storage sectors, including product innovation, general economic and political conditions, environmental concerns, energy demand, government support and economic incentives. While governmental economic incentives and mandates can drive market demand for electric vehicles and energy storage, and as a result, battery systems and components, governmental economic incentives can be gradually reduced or eliminated. Any reduction or elimination of governmental economic incentives may result in reduced demand for our products and adversely affect our financial performance.

Manufacturing Capacity

Our growth depends on being able to meet anticipated demand for our products. In order to do this, we will need to increase our manufacturing capacity. As of September 30, 2022, we had a backlog of approximately $140.6 million for our battery systems, equivalent to approximately 477.4 MWh. So far, we have used $87.9 million and $84.7 million of the proceeds from the Business Combination to expand our manufacturing facilities and for the purchase of property and equipment associated with our existing manufacturing and R&D facilities, in 2021 and the first nine months of 2022, respectively. This investment program allows us to increase our manufacturing output, enabling us to address our backlog and to capture growing market opportunities. We expect the total capital expenditures related to these capacity expansions in Huzhou, China and Clarksville, Tennessee, which will give us an additional 4 GWh of capacity, to be in the range of $460.0 million to $490.0 million.

Future capacity expansions will be carried out in a measured manner based on our ongoing assessment of medium- and long-term demand for our solutions. Any such capacity expansions will require significant additional capital expenditures and will require corresponding expansion of our supporting infrastructure, further development of our sales and marketing team, expansion of our customer base and strengthened quality control.

Sales Geographic Mix

After primarily being focused on the Asia & Pacific regions, we have expanded and are continuing to expand our presence and product promotion to Europe and the U.S. to capitalize on the rapidly growing electric vehicle and energy storage markets in those geographies. As we continue to expand our geographic focus to Europe and the U.S., we believe sales of our products in Europe and the U.S. will continue to generate higher gross margins because average sales prices for customers in the U.S. and Europe are typically significantly higher than the average sales prices in the PRC. It has been our experience that buyers in Europe and the U.S. are more motivated by the technologies, and the quality of our products than are buyers in the PRC, making them less sensitive to the price of our products than are similarly situated buyers in the PRC. Therefore, the geographic source of our revenue will have an impact on our revenue and gross margins.

Manufacturing Costs

Our profitability may also be affected by our ability to effectively manage our manufacturing costs. Our manufacturing costs are affected by fluctuations in the price of raw materials. If raw material prices increase, we will have to offset these higher costs either through price increases to our customers or through productivity improvements. Our ability to control our raw materials costs is also dependent on our ability to negotiate with our suppliers for a better price and our ability to source raw materials from reliable suppliers in a cost-efficient manner. In addition, we expect that an increase in our sales volume will enable us to lower our manufacturing costs through economies of scale.

Regulatory Landscape

We operate in an industry that is subject to many established environmental regulations, which have generally become more stringent over time, particularly with respect to hazardous waste generation and disposal and pollution control. These regulations affect the cost of our products and our gross margins. We are also affected by regulations in our target markets such as economic incentives to purchasers of electric vehicles, tax credits for electric vehicle manufacturers, and economic penalties that may apply to a car manufacturer based on its fleet-wide emissions. Each of these regulations may expand the market size of electric vehicles, which would, in turn, benefit us. We have operations and sales in the Asia & Pacific region, Europe and the U.S. and, as a result, changes in trade restrictions and tariffs could impact our ability to meet projected sales or margins.

COVID-19

To date, COVID-19 has had an adverse impact on our sales and operations. During the nine months ended September 30, 2022, we continued to face unanticipated challenges caused by the continued impact of the global pandemic and emerging variants of the virus, in particular due to continued lockdowns and other restrictive measures in China. During the nine months ended September 30, 2022, the lockdowns did not have a direct impact on our manufacturing facility in Huzhou, China; however, they have impacted the operations of certain of our third-party suppliers and our ability to book transportation of goods. In addition, the lockdowns and other restrictive measures have significantly disrupted supply chains across many industries around the globe. These and future lockdown measures may impact our ability to produce and/or timely deliver goods and services to our clients globally and further disruptions to supply chains in the automotive industry may continue to reduce and/or delay our customers' demand for our products and services. In addition, lengthy mandatory quarantine periods continue to restrict our ability to have non-China based employees and other invitees visit our facilities in China.

Basis of Presentation

We currently conduct our business through one operating segment. Our historical results are reported in accordance with U.S. GAAP and in U.S. dollars.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily from capital contributions from equity holders, the issuance of convertible notes and bank borrowings. We expect existing cash, cash equivalents, short-term marketable securities, and cash flows from operations and financing activities to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities for at least the next 12 months and thereafter for the foreseeable future.

As of September 30, 2022, our principal sources of liquidity were our cash and cash equivalents in the amount of $295.8 million. We also have $69.3 million (RMB500 million) available for drawdown under our project finance facility for the construction of our Huzhou 3.1 capacity expansion.

The consolidated net cash position as of September 30, 2022 included cash and cash equivalents of $9.4 million, $5.4 million and $0.3 million held by our PRC, German and UK subsidiaries, respectively, that is not available to fund domestic operations unless funds are repatriated. Should we need to repatriate to the U.S. part or all of the funds held by our international subsidiaries in the form of a dividend, we would need to accrue and pay withholding taxes. We do not intend to pay any cash dividends on our common stock in the foreseeable future and intend to retain all of the available funds and any future earnings for use in the operation and expansion of our business in the PRC, Europe and the U.S.

We continue to assess the effect of the COVID-19 pandemic as well as the Russia/Ukraine crisis on our operations. The extent to which the COVID-19 pandemic will impact our business and operations will depend on future developments that are highly uncertain and cannot be predicted with confidence, such as the continuing spread of the infection, new and emerging variants of the virus, the duration of the pandemic, and the effectiveness of actions taken in the U.S. and other countries to contain and treat the disease. The extent to which the Russia/Ukraine crisis will impact our business and operations will also depend on future developments that are highly uncertain and cannot be predicted with confidence, including restrictive actions that have been and may be taken in the future by the U.S. and/or other countries, such as sanctions or export controls, and the duration of the conflict.

Financings

As of September 30, 2022, we had bank borrowings of $45.0 million, the terms of which range from 8 months to 4.2 years. The interest rates of our bank borrowings ranged from 4.50% to 4.80% per annum. As of September 30, 2022, we had convertible bonds of $73.1 million, with interest rates ranging from 0% to 4%. The convertible bonds are due as follows: $29.2 million in 2022 and $43.9 million in 2027. As of September 30, 2022, we were in compliance with all material terms and covenants of our loan agreements, credit agreements, bonds and notes.

On July 23, 2021, we received $708.4 million from the completion of the Business Combination, $705.1 million net of transaction costs paid by Microvast, Inc. We have used $172.6 million of the net proceeds from the Business Combination to expand our manufacturing facilities and for the purchase of property and equipment associated with our existing manufacturing and R&D facilities. In addition, $60.5 million of the net proceeds were used for working capital as of September 30, 2022. For the rest of 2022, we plan to spend an additional $90.0 million to $120.0 million on capacity expansions at our facilities with the timing of payments being linked to various agreed milestones with our third-party contractors.

We believe we will be able to meet our working capital requirements for at least the next 12 months and fund our expansion plans with proceeds from the Business Combination.

Capital expenditures and other contractual obligations

Our future capital requirements will depend on many factors, including, but not limited to, funding for planned production capacity expansion and general working capital. We believe the proceeds from the Business Combination will be sufficient to cover our planned expansions totaling 4GWh and our general working capital needs. In addition, we may in the future enter into arrangements to further increase our production capacity or seek to acquire or invest in complementary businesses or technologies. We may need to seek additional equity or debt financing in order to meet these future capital requirements. If we are unable to raise additional capital when desired, or on terms that are acceptable to us, our business, financial condition and results of operations could be adversely affected.

Lease Commitments

We lease certain facilities and equipment under non-cancellable lease agreements that expire at various dates through 2036. For additional information, see Note 12 – Leases, in the notes to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Report on Form 10-Q.

Capital Expenditures

In 2021, we started our capacity expansion plans in Huzhou, China, Berlin, Germany and Clarksville, Tennessee. The project in Germany was completed in 2021, and the Huzhou, China and Clarksville, Tennessee projects are expected to be completed in 2023. The completion of these projects is expected to increase our existing production capacity by 4 GWh once operational. We expect the total capital expenditures related to these capacity expansions in Huzhou, China and Clarksville, Tennessee to be in the range of $460.0 million to $490.0 million, which we plan to finance primarily through the proceeds from the Business Combination and bank borrowings, which we believe will be sufficient to cover all of the disclosed and estimated costs.

Our planned capital expenditures are based on management’s current estimates and may be subject to change. There can be no assurance that we will execute our capital expenditure plans as contemplated at or below-estimated costs, and we may also from time-to-time determine to undertake additional capital projects and incur additional capital expenditures. As a result, actual capital expenditures in future years may be more or less than the amounts shown.

There have not been any other material changes during the three and nine months ended September 30, 2022 to our contractual obligations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Cash Flows

The following table provides a summary of our cash flow data for the periods indicated:

	Nine Months Ended September 30,	
	2021	2022
Amount in thousands		
Net cash used in operating activities	(24,653)	(58,595)
Net cash used in investing activities	(40,718)	(84,719)
Net cash generated from financing activities	634,370	34,226

Cash Flows from Operating Activities

During the nine months ended September 30, 2022, our operating activities used $58.6 million in cash. This decrease in cash consisted of (1) a net loss of $124.5 million and non-cash charges of $102.5 million, of which $15.2 million is depreciation of property, plant and equipment and $72.9 million is non-cash share-based compensation expense; and (2) a $36.6 million decrease in cash flows from operating assets and liabilities including $3.6 million cash outflow due to the net increase of accounts receivable and notes receivable and $39.5 million increase in inventories, $16.0 million decrease in accrued and other liabilities and prepaid expense and other current assets, partially offset by $19.4 million increase in accounts payable and notes payable and $3.1 million cash inflow from other operating assets and liabilities.

Cash Flows from Investing Activities

During the nine months ended September 30, 2022, cash used in investing activities totaled $84.7 million. This cash outflow primarily consisted of capital expenditures related to the expansion of our manufacturing facilities and to the purchase of property and equipment associated with our existing manufacturing and R&D facilities.

Cash Flows from Financing Activities

During the nine months ended September 30, 2022, cash generated from financing activities totaled $34.2 million. This cash inflow was a result of $58.7 million proceeds from bank borrowings partially offset by $24.5 million repayment on bank borrowings.

Components of Results of Operations

Revenues

We derive revenue from the sales of our electric battery products, including LpTO, LFP, LpCO, MpCO and HnCO battery power systems. While we have historically marketed and sold our products primarily in the PRC, we have expanded and are continuing to expand our sales presence internationally. The following table sets forth a breakdown of our revenue by major geographic regions in which our customers are located, for the periods indicated:

	Three Months Ended September 30,			
	2021		2022	
(In thousands)	**Amt**	**%**	**Amt**	**%**
People's Republic of China ('PRC')	*$ 19,720*	*54 %*	*$ 26,542*	*69 %*
Other Asia & Pacific countries	*12,072*	*33 %*	*7,394*	*19 %*
Asia & Pacific	**31,792**	**87 %**	**33,936**	**88 %**
Europe	**4,908**	**13 %**	**3,432**	**9 %**
U.S.	**194**	**— %**	**1,248**	**3 %**
Total	**$ 36,894**	**100 %**	**$ 38,616**	**100 %**

	Nine Months Ended September 30,			
	2021		2022	
(In thousands)	Amt	%	Amt	%
People's Republic of China ('PRC')	*$ 52,012*	*61 %*	*$ 80,326*	*57 %*
Other Asia & Pacific countries	*21,348*	*25 %*	*45,420*	*33 %*
Asia & Pacific	**73,360**	**86 %**	**125,746**	**90 %**
Europe	**11,466**	**13 %**	**11,062**	**8 %**
U.S.	**378**	**1 %**	**2,890**	**2 %**
Total	**$ 85,204**	**100 %**	**$ 139,698**	**100 %**

We have historically derived a portion of our revenue in a given reporting period from a limited number of key customers, which vary from period to period. The following table summarizes net revenues from customers that accounted for over 10% of our net revenues for the periods indicated:

	Three Months Ended September 30,	
	2021	2022
A	17 %	*%
B	*%	15 %
C	*%	12 %

	Nine Months Ended September 30,	
	2021	2022
D	12 %	*%
A	11 %	*%
E	*%	11 %

*Revenue from such customers represented less than 10% of our revenue during the respective periods.

Cost of Revenues and Gross Profit

Cost of revenues include direct and indirect materials, manufacturing overhead (including depreciation, freight and logistics), warranty reserves and expenses, and labor costs and related personnel expenses, including share-based compensation and other related expenses that are directly attributable to the manufacturing of products.

Gross profit is equal to revenues less cost of revenues. Gross profit margin is equal to gross profit divided by revenues.

Operating Expenses

Operating expenses consist of selling and marketing, general and administrative and research and development expenses.

Selling and marketing expenses. Selling and marketing expenses consist primarily of personnel-related costs associated with our sales and marketing functions, including share-based compensation, and other expenses related to advertising and promotions of our products. We intend to hire additional sales personnel, initiate additional marketing programs and build additional relationships with our customers. Accordingly, we expect that our selling and marketing expenses will continue to increase in absolute dollars in the long term as we expand our business.

General and administrative expenses. General and administrative expenses consist primarily of personnel-related expenses associated with our executive team members, including share-based compensation, legal, finance, human resource and information technology functions, as well as fees for professional services, depreciation and amortization and insurance expenses. We expect to incur additional costs as we hire personnel and enhance our infrastructure to support the anticipated growth of our business.

Research and development expenses. Research and development expenses consist primarily of personnel-related expenses, including share-based compensation, raw material expenses relating to materials used for experiments, utility expenses and depreciation expenses attributable to research and development activities. Over time, we expect our research and development expense to increase in absolute dollars as we continue to make significant investments in developing new products, applications, functionality and other offerings.

Subsidy Income

Government subsidies represent government grants received from local government authorities. The amounts of and conditions attached to each subsidy were determined at the sole discretion of the relevant governmental authorities. Our subsidy income is non-recurring in nature.

Other Income and Expenses

Other income and expenses consist primarily of interest expense associated with our debt financing arrangements, interest income earned on our cash balances, gains and losses from foreign exchange conversion, and gains and losses on disposal of assets.

Income Tax Expense

We are subject to income taxes in the U.S. and foreign jurisdictions in which we do business, namely the PRC, Germany and the UK. These foreign jurisdictions have statutory tax rates different from those in the U.S. Accordingly, our effective tax rates will vary depending on the relative proportion of foreign to U.S. income, the absorption of foreign tax credits, changes in the valuation of our deferred tax assets and liabilities and changes in tax laws. We regularly assess the likelihood of adverse outcomes resulting from the examination of our tax returns by the U.S. Internal Revenue Service (the “IRS”), and other tax authorities to determine the adequacy of our income tax reserves and expense. Should actual events or results differ from our current expectations, charges or credits to our income tax expense may become necessary. Any such adjustments could have a significant impact on our results of operations.

Income tax in the PRC is generally calculated at 25% of the estimated assessable profit of our subsidiaries in the PRC, except that two of our PRC subsidiaries were qualified as “High and New Tech Enterprises” and thus enjoyed a preferential income tax rate of 15%. Federal corporate income tax rate of 21% is applied for our U.S. entity. Income tax in the UK is calculated at an average tax rate of 19% of the estimated assessable profit of our subsidiary in the UK. German enterprise income tax, which is a combination of corporate income tax and trade tax, is calculated at 29.1% of the estimated assessable profit of our subsidiary in Germany.

Results of Operations

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

The following table sets forth our historical operating results for the periods indicated:

	Three Months Ended September 30,		$ Change	% Change
	2021	2022		
Amount in thousands				
Revenues	$ 36,894	$ 38,616	$ 1,722	4.7 %
Cost of revenues	(72,779)	(36,623)	36,156	(49.7)%
Gross (loss)/profit	(35,885)	1,993	37,878	105.6 %
	(97.3)%	5.2 %		
Operating expenses:				
General and administrative expenses	(57,058)	(22,585)	34,473	(60.4)%
Research and development expenses	(13,518)	(11,457)	2,061	(15.2)%
Selling and marketing expenses	(7,380)	(5,561)	1,819	(24.6)%
Total operating expenses	(77,956)	(39,603)	38,353	(49.2)%
Subsidy income	545	520	(25)	(4.6)%
Operating loss	(113,296)	(37,090)	76,206	(67.3)%
Other income and expenses:				
Interest income	97	870	773	796.9 %
Interest expense	(1,247)	(774)	473	(37.9)%
Loss on changes in fair value of convertible notes	(3,018)	—	3,018	(100.0)%
Gain on change in fair value of warrant liability	1,113	101	(1,012)	(90.9)%
Other (loss) income, net	(19)	349	368	(1936.8)%
Loss before income tax	(116,370)	(36,544)	79,826	(68.6)%
Income tax expense	(106)	—	106	(100.0)%
Net loss	$ (116,476)	$ (36,544)	$ 79,932	(68.6)%

Revenues

Our revenues increased from approximately $36.9 million for the three months ended September 30, 2021 to approximately $38.6 million for the same period in 2022, primarily driven by an increase in sales volume from approximately 94.6 MWh for three months ended September 30, 2021 to approximately 112.2 MWh for the same period in 2022, offset by approximately $1.6 million decrease due to the appreciation of US Dollar against RMB with the average exchange rate increased from approximately 6.4699 for the three months ended September 30, 2021 to approximately 6.8520 for the same period in 2022.

Cost of Revenues and Gross Profit

Our cost of revenues for the three months ended September 30, 2022 decreased by $36.2 million, or 49.7%, compared to the same period in 2021.The decrease in the cost of revenues was primarily due to $34.1 million of additional accrual warranty cost for certain legacy products during the third quarter of 2021, which did not occur in the three months ended September 30, 2022.

Our gross margin increased from negative 97.3% for the three months ended September 30, 2021 to 5.2% for the same period in 2022. The increase in gross margin was primarily due to (i) better economies of scale resulting from increasing sales volume, and (ii) $34.1 million of additional accrual warranty cost for certain legacy product during the third quarter of 2021, which did not occur in the same period of 2022, offset by the increases in material prices.

Operating Expenses

Selling and Marketing

Selling and Marketing expenses for the three months ended September 30, 2022 decreased by $1.8 million, or 24.6%, compared to the same period in 2021. The decrease in Selling and Marketing expenses was primarily due to $2.2 million of decreased share-based compensation expenses, offset by the increases related to business expansion.

General and Administrative

General and Administrative expenses for the three months ended September 30, 2022 decreased by $34.5 million, or 60.4%, compared to the same period in 2021. The decrease in General and Administrative expenses was primarily due to $31.3 million of decreased share-based compensation expenses and $3.7 million of decreased exchange loss, offset by other increases related to business expansion.

Research and Development

R&D expenses for the three months ended September 30, 2022 decreased by $2.1 million, or 15.2%, compared to the same period in 2021. The decrease in R&D expenses was primarily due to $5.1 million of decreased share-based compensation expenses, offset by (i) $1.0 million of increased personnel-related expenses as we increased headcount of our research team as a result of our efforts to further develop and enhance our products and other increases related to business expansion; (ii) $1.4 million of increased costs of materials used for experiments due to more testing activities and (iii) other increases related to business expansion.

Gain on change in fair value of warrant liability

In the three months ended September 30, 2022, we recorded a gain of $0.1 million due to the change in fair value of the warrant liability.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

The following table sets forth our historical operating results for the periods indicated:

	Nine Months Ended September 30,		$ Change	% Change
	2021	2022		
Amount in thousands				
Revenues	$ 85,204	$ 139,698	$ 54,494	64.0 %
Cost of revenues	(129,100)	(132,851)	(3,751)	2.9 %
Gross (loss)/profit	(43,896)	6,847	50,743	115.6 %
	(51.5)%	4.9 %		
Operating expenses:				
General and administrative expenses	(67,810)	(83,021)	(15,211)	22.4 %
Research and development expenses	(23,199)	(33,010)	(9,811)	42.3 %
Selling and marketing expenses	(14,242)	(17,369)	(3,127)	22.0 %
Total operating expenses	(105,251)	(133,400)	(28,149)	26.7 %
Subsidy income	2,676	1,233	(1,443)	(53.9)%
Operating loss	(146,471)	(125,320)	21,151	(14.4)%
Other income and expenses:				
Interest income	304	1,604	1,300	427.6 %
Interest expense	(4,630)	(2,465)	2,165	(46.8)%
Loss on changes in fair value of convertible notes	(9,861)	—	9,861	(100.0)%
Gain on change in fair value of warrant liability	1,113	921	(192)	(17.3)%
Other income, net	25	758	733	2932.0 %
Loss before income tax	(159,520)	(124,502)	35,018	(22.0)%
Income tax expense	(324)	—	324	(100.0)%
Net loss	$ (159,844)	$ (124,502)	$ 35,342	(22.1)%

Revenues

Our revenues increased from approximately $85.2 million for the nine months ended September 30, 2021 to approximately $139.7 million for the same period in 2022, primarily driven by an increase in sales volume from approximately 257.8 MWh for the nine months ended September 30, 2021 to approximately 478.7 MWh for the same period in 2022.

Cost of Revenues and Gross Profit

Our cost of revenues for the nine months ended September 30, 2022 increased by $3.8 million, or 2.9%, compared to the same period in 2021. The cost of revenues increased primarily due to the increase of sales.

Our gross margin increased from negative 51.5% for the nine months ended September 30, 2021 to 4.9% for the same period in 2022. The increase in gross margin was primarily due to better economies of scale resulting from increasing sales volume and $40.8 million of additional accrual warranty cost for the legacy product during the first nine months of 2021 which did not occur in the same period of 2022, offset by (i) the increases in material prices and (ii) $3.5 million of increased share-based compensation expenses.

Operating Expenses

Selling and Marketing

Selling and Marketing expenses for the nine months ended September 30, 2022 increased by $3.1 million, or 22.0%, compared to the same period in 2021. The increase in Selling and Marketing expenses was primarily due to $2.0 million of increased share-based compensation expenses and other increases related to business expansion.

General and Administrative

General and Administrative expenses for the nine months ended September 30, 2022 increased by $15.2 million, or 22.4%, compared to the same period in 2021. The increase in General and Administrative expenses was primarily due to (i) $11.4 million of increased share-based compensation expenses, (ii) $3.5 million of increased professional service expense after the Business Combination and (iii) other increases related to business expansion.

Research and Development

R&D expenses for the nine months ended September 30, 2022 increased by $9.8 million, or 42.3%, compared to the same period in 2021. The increase in R&D expenses was primarily due to $2.7 million of increased share-based compensation expenses (ii) $3.4 million of increased personnel-related expenses as we increased headcount of our research team as a result of our efforts to further develop and enhance our products, (iii) $2.2 million of increased costs of materials used for experiments due to more testing activities and (iv) other increases related to business expansion.

Subsidy Income

Subsidy income decreased from $2.7 million for the nine months ended September 30, 2021 to $1.2 million in the same period in 2022, primarily due to a one-time award granted by local governments in the PRC in 2021.

Gain on change in fair value of warrant liability

In the nine months ended September 30, 2022, we recorded a gain of $0.9 million due to the change in fair value of the warrant liability.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no substantial changes to these estimates, or the policies related to them during the nine months ended September 30, 2022. For a full discussion of these estimates and policies, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our cash and cash equivalents consist of cash and money market accounts. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant. Our borrowings under our line of credit carry variable interest rates so such risks are limited as it relates to our current borrowings.

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash equivalents have a short maturity, our portfolio’s fair value is relatively insensitive to interest rate changes. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our operating results or financial condition. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives.

Foreign Currency Risk

Our major operational activities are carried out in the PRC and a majority of the transactions are denominated in Renminbi. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our operating results as a result of transaction gains and losses related to translating certain cash balances, trade accounts receivable and payable balances, and intercompany balances that are denominated in currencies other than the U.S. Dollar, principally Renminbi. The effect of an immediate 10% adverse change in foreign exchange rates on Renminbi-denominated accounts as of September 30, 2022, including intercompany balances, would result in a foreign currency loss of $2.3 million. In the event our foreign sales and expenses increase, our operating results may be more affected by fluctuations in the exchange rates of the currencies in which we do business. At this time, we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Credit Risk

Our credit risk primarily relates to our trade and other receivables, restricted cash, cash equivalents and amounts due from related parties. We generally grant credit only to clients and related parties with good credit ratings and also closely monitor overdue debts. In this regard, we consider that the credit risk arising from our balances with counterparties is significantly reduced.

In order to minimize the credit risk, we have delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. We will negotiate with the counterparties of the debts for settlement plans or changes in credit terms, should the need arise. In this regard, we consider that our credit risk is significantly reduced.

Seasonality

We have historically experienced higher sales during our third and fourth fiscal quarters as compared to our first and second fiscal quarters due to reduced purchases from our customers, who are mainly Chinese bus OEMs, during the Chinese Spring Festival holiday season in our first fiscal quarter. However, our limited operational history makes it difficult for us to judge the exact nature or extent of the seasonality of our business.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2022. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2022 and believed that the unaudited condensed consolidated financial statements included in this Report fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, Microvast’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may be involved in various legal proceedings and subject to claims that arise in the ordinary course of business. Although the results of litigation and claims are inherently unpredictable and uncertain, we are not currently a party to any legal proceedings the outcome of which, if determined adversely to us, are believed to, either individually or taken together, have a material adverse effect on our business, operating results, cash flows or financial condition. However, the results of litigation and claims are inherently unpredictable. Regardless of the outcome, litigation has the potential to have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors. See Note 16 – Commitments and Contingencies, in the notes to the unaudited condensed consolidated financial statements, which is incorporated in Part I, Item 1 of this Report on Form 10-Q, which is incorporated by reference.

Item 1A. Risk Factors

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Report on Form 10-Q, as well as the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and other reports that we have filed with the SEC, including the section entitled “Risk Factors” in the Registration Statement on Form S-3 (File No. 333-258978), filed on July 28, 2022, as subsequently amended. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of our equity securities during the three months ended September 30, 2022.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

The following exhibits are furnished as part of, or incorporated by reference into, this Report on Form 10-Q.

Exhibit Number	Exhibit Title
2.1+	Agreement and Plan of Merger, dated as of February 1, 2021, by and among Tuscan Holdings Corp., TSCN Merger Sub Inc., and Microvast, Inc. (incorporated by reference to the Company's definitive proxy statement on Schedule 14A, filed with the SEC on July 2, 2021).
3.1	Second Amended and Restated Certificate of Incorporation of Microvast Holdings, Inc. (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 28, 2021).
3.2	Amended and Restated Bylaws of Microvast Holdings, Inc. (incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on July 28, 2021).
4.1	Specimen Common Stock Certificate (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K, filed with the SEC on July 28, 2021).
4.2	Specimen Warrant Certificate (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K, filed with the SEC on July 28, 2021).
4.3	Warrant Agreement (incorporated by reference from Exhibit 4.4 to the Company's Registration Statement on Form S-1, filed with the Company on February 26, 2019).
4.4	Registration Rights and Lock-Up Agreement, dated as of July 26, 2021, by and among (a) Microvast Holdings, Inc., (b) the Microvast Equity Holders, (c) the CL Holders, (d) Tuscan Holdings Acquisition LLC, Stefan M. Selig, Richard O. Rieger and Amy Butte, and (e) EarlyBirdCapital, Inc. (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 28, 2021).
4.5	Stockholders Agreement, dated July 26, 2021, by and among (a) Microvast Holdings, Inc., (b) Yang Wu and (c) Tuscan Holdings Acquisition LLC. (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on July 28, 2021).
10.1	English Translation of Syndicated Loan Agreement, dated September 27, 2022, by and among Microvast Power Systems Co., Ltd. and the Lenders listed thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 29, 2022).
31.1*	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

** Furnished.

\+ Certain schedules to this Exhibit have been omitted in accordance with Item 601(b)(2) of Regulation S-K. The Company hereby agrees to hereby furnish supplementally a copy of all omitted schedules to the SEC upon request.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: November 10, 2022	**MICROVAST HOLDINGS, INC.**

By:	/s/ Craig Webster
Name:	Craig Webster
Title:	Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Yang Wu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 of Microvast Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 10, 2022	By:	/s/ Yang Wu	
		Name:	Yang Wu
		Title:	Chief Executive Officer and Director (Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Craig Webster, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 of Microvast Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 10, 2022

By: /s/ Craig Webster
Name: Craig Webster
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Microvast Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Yang Wu, Chief Executive Officer and Director, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2022

/s/ Yang Wu

Name:	Yang Wu
Title:	Chief Executive Officer and Director (Principal Executive Officer)

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Microvast Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Craig Webster, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2022

/s/ Craig Webster

Name:	Craig Webster
Title:	Chief Financial Officer
	(Principal Financial and Accounting Officer)