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DELTA REPORT

10-Q

HOLLEY INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - OCTOBER 01, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1287

■ CHANGES	214
■ DELETIONS	644
■ ADDITIONS	429

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended **October 1, 2023** **March 31, 2024**

OR

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

For the transition period from _____ to _____

Commission file number: 001-39599

HOLLEY INC.

(Exact name of registrant as specified in its charter)

Delaware

87-1727560

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1801 Russellville Road, Bowling Green, KY 42101

(Address of principal executive offices)

(270) 782-2900

(Registrant's telephone number, including area code)

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001	HLLY	New York Stock Exchange
Warrants to purchase common stock	HLLY WS	New York Stock Exchange

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act). Yes No

There were **118,566,872** **119,311,341** shares of Common Stock, including 1,093,750 restricted earn-out shares, par value \$0.0001 per share, issued and outstanding as of **November 3, 2023** **May 1, 2024**.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are intended to enjoy the protection of the safe harbor for forward-looking statements provided by the Securities Act and Exchange Act, as well as protections afforded by other federal securities laws. These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for the Company's business. Forward-looking statements may be accompanied by words such as "believe," "estimate," "expect," "project," "forecast," "may," "will," "should," "seek," "plan," "scheduled," "anticipate," "intend" or similar expressions. These forward-looking statements are subject to various

risks and uncertainties, many of which are outside our control. Therefore, you should not place undue reliance on such statements. Actual results could differ materially due to numerous factors, including but not limited to the Company's ability to do any of the following:

- execute its business strategy, including monetization of services provided and expansions in and into existing and new lines of business;
- anticipate and manage through disruptions and higher costs in manufacturing, supply chain, logistical operations, and shortages of certain company products in distribution channels;
- anticipate and manage through supply shortages of key component parts used in our products and the need to shift the mix of products offered in response thereto;
- respond to the impact of geopolitical events, including military conflicts (including the conflict in Ukraine, the conflict in Israel and surrounding areas, the Middle East, the possible expansion of such conflicts and potential geopolitical consequences), the interruption from catastrophic events and problems such as terrorism, and public health crises;
- maintain key strategic relationships with partners and resellers;
- anticipate and manage through the impact of elevated interest rate levels, which cause the cost of capital to increase, as well as respond to inflationary pressures;
- enhance future operating and financial **results**; **results**, whether through anticipated organic or external growth initiatives or through the implementation of cost savings **initiatives**;
- respond to uncertainties associated with product and service development and market acceptance;
- anticipate and manage through increased constraints in consumer demand and/or shifts in the mix of products sold;
- attract and retain qualified employees and key personnel;
- protect and enhance the Company's corporate reputation and brand awareness;
- recognition of goodwill and other intangible asset impairment charges;
- effectively respond to general economic and business conditions;
- acquire and protect intellectual property;
- collect, store, process and use personal and payment information and other consumer data;
- comply with privacy and data protection laws and other legal obligations related to privacy, information security, and data protection;
- **The** manage the impact of any security breaches, cyber-attacks, or other cybersecurity threats or incidents, or the failure of any key information technology systems;
- meet future liquidity requirements and comply with restrictive covenants related to long-term indebtedness;
- obtain additional capital, including **use** through the sale of **the** equity or debt **market**; **securities**;
- manage to finance operations on an economically viable basis;
- maintain Holley's New York Stock Exchange ("NYSE") listing of its common stock ("Common Stock") and warrants to purchase Common **Stock**; **Stock** ("Warrants");

- comply with existing and/or future laws and regulations applicable to **its** **our** business, including laws and regulations related to environmental health and **safety**; **safety** and **the recently issued required climate-related disclosures**;
- respond to litigation, complaints, product liability claims and/or adverse publicity;
- anticipate the significance and timing of contractual obligations;
- anticipate the impact of, and response to, new accounting standards;
- maintain proper and effective internal controls;
- respond to the impact of changes in U.S. tax laws and regulations, including the impact on deferred tax assets;
- anticipate the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act");
- anticipate the impact of changes in consumer spending patterns, consumer preferences, local, regional and national economic conditions, crime, weather, and demographic trends; and
- respond to other risks and factors, listed under the caption "Risk Factors" included in our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**, as filed with the U.S. Securities and Exchange Commission (the "SEC") on **March 15, 2023** **March 14, 2024**, in Part II, Item 1A of this Quarterly Report on Form 10-Q, and/or as disclosed in any subsequent filings with the SEC.

Forward-looking statements are based on information available as of the date of this Quarterly Report on Form 10-Q and our management's expectations, forecasts and assumptions, and involve a number of judgements, risks and uncertainties, and actual results, developments and business decisions may differ materially from those envisaged by such forward-looking statements. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date. We undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

HOLLEY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

ASSETS	As of		As of	
	October 1, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 36,833	\$ 26,150	\$ 41,127	\$ 41,081
Accounts receivable, less allowance for credit losses of \$1,852 and \$1,550 respectively	47,390	47,083		
Accounts receivable, less allowance for credit losses of \$1,368 and \$1,577 respectively			48,721	48,360
Inventory	207,161	233,573	184,016	192,260
Prepays and other current assets	13,283	18,157	15,944	15,665
Total current assets	304,667	324,963	289,808	297,366
Property, plant, and equipment, net	48,026	52,181	46,376	47,206
Goodwill	419,056	418,121	419,056	419,056
Other intangibles assets, net	413,774	424,855	406,896	410,465

Right-of-use assets	30,415	29,522	28,481	29,250
Other noncurrent assets	3,185	—	1,117	—
Total assets	\$ 1,219,123	\$ 1,249,642	\$ 1,191,734	\$ 1,203,343
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable	\$ 39,762	\$ 44,948	\$ 50,258	\$ 43,692
Accrued interest	324	5,994	442	455
Accrued liabilities	42,225	43,317	43,580	42,129
Current portion of long-term debt	6,571	7,000	7,444	7,461
Total current liabilities	88,882	101,259	101,724	93,737
Long-term debt, net of current portion	603,507	643,563	560,112	576,710
Warrant liability	9,788	4,272	5,256	8,383
Earn-out liability	3,265	1,176	2,830	3,479
Deferred taxes	49,774	58,390	51,631	53,542
Long-term operating lease liabilities	26,006	24,992		
Other noncurrent liabilities			25,266	26,341
Total liabilities	781,222	833,652	746,819	762,192
Commitments and contingencies (Refer to Note 18 - Commitments and Contingencies)				
Commitments and contingencies (Refer to Note 15 - Commitments and Contingencies)				
Stockholders' equity:				
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding on October 1, 2023 and December 31, 2022	—	—		
Common stock, \$0.0001 par value, 550,000,000 shares authorized, 117,473,122 and 117,147,997 shares issued and outstanding on October 1, 2023 and December 31, 2022, respectively	12	12		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding on March 31, 2024 and December 31, 2023			—	—
Common stock, \$0.0001 par value, 550,000,000 shares authorized, 118,311,341 and 117,707,280 shares issued and outstanding on March 31, 2024 and December 31, 2023, respectively			12	12
Additional paid-in capital	372,158	368,122	374,089	373,869
Accumulated other comprehensive loss	(1,047)	(944)	(896)	(710)
Retained earnings	66,778	48,800	71,710	67,980
Total stockholders' equity	437,901	415,990	444,915	441,151
Total liabilities and stockholders' equity	\$ 1,219,123	\$ 1,249,642	\$ 1,191,734	\$ 1,203,343

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

HOLLEY INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	March 31,	April 2, 2023
					2024	2023
Net sales	\$ 156,530	\$ 154,775	\$ 503,997	\$ 534,250	\$ 158,636	\$ 172,205
Cost of goods sold	98,156	106,383	308,162	327,849	106,577	104,492
Gross profit	58,374	48,392	195,835	206,401	52,059	67,713
Selling, general, and administrative	28,880	31,921	87,998	102,532	32,996	30,017
Research and development costs	6,100	6,039	18,935	22,396	4,812	6,653
Amortization of intangible assets	3,687	3,662	11,040	10,985	3,436	3,679

Impairment of indefinite-lived intangible assets	—	2,395	—	2,395		
Acquisition and restructuring costs	415	1,266	2,106	3,247		
Restructuring costs					615	1,339
Other operating expense (income)	(28)	47	508	594	(8)	51
Total operating expense	39,054	45,330	120,587	142,149	41,851	41,739
Operating income	19,320	3,062	75,248	64,252	10,208	25,974
Change in fair value of warrant liability	2,064	(30,171)	5,516	(51,112)	(3,127)	1,435
Change in fair value of earn-out liability	700	(7,429)	2,089	(9,282)	(649)	428
Loss on early extinguishment of debt					141	—
Interest expense, net	13,712	10,428	41,909	26,780	11,004	18,298
Total non-operating expense (income)	16,476	(27,172)	49,514	(33,614)		
Total non-operating expense					7,369	20,161
Income before income taxes	2,844	30,234	25,734	97,866	2,839	5,813
Income tax expense (benefit)	2,092	(1,345)	7,756	8,866	(891)	1,566
Net income	\$ 752	\$ 31,579	\$ 17,978	\$ 89,000	\$ 3,730	\$ 4,247
Comprehensive income:						
Foreign currency translation adjustment	(176)	516	(103)	1,258	(186)	(199)
Total comprehensive income	\$ 576	\$ 32,095	\$ 17,875	\$ 90,258	\$ 3,544	\$ 4,048
Common Share Data:						
Weighted average common shares outstanding - basic	117,397,069	117,119,609	117,256,959	116,636,906	117,871,829	117,153,525
Weighted average common shares outstanding - diluted	119,245,956	117,138,134	118,119,501	117,273,613	119,505,330	117,244,762
Basic net income per share	\$ 0.01	\$ 0.27	\$ 0.15	\$ 0.76	\$ 0.03	\$ 0.04
Diluted net income per share	\$ 0.01	\$ 0.27	\$ 0.15	\$ 0.32	\$ 0.03	\$ 0.04

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

HOLLEY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Common Stock		Accumulated		Retained		Common Stock		Accumulated	
			Additional	Other	Earnings				Additional	Other
	Shares	Amount	Paid-In	Comprehensive	(Accumulated)	Total	Paid-In	Comprehensive	Retained	
Balance at December 31, 2021	115,805,639	\$ 12	\$ 329,705	\$ (256)	\$ (24,974)	\$ 304,487				
Net income	—	—	—	—	16,858	16,858				
Equity compensation	—	—	3,162	—	—	3,162				
Foreign currency translation	—	—	—	241	—	241				
Issuance of vested Earn-Out Shares	1,093,750	—	14,689	—	—	14,689				
Balance at April 3, 2022	116,899,389	12	347,556	(15)	(8,116)	339,437				
Net income	—	—	—	—	40,563	40,563				

Equity compensation	—	—	3,483	—	—	3,483						
Foreign currency translation	—	—	—	501	—	501						
Warrants exercised	33,333	—	383	—	—	383						
Balance at July 3, 2022	116,932,722	12	351,422	486	32,447	384,367						
Net income	—	—	—	—	31,579	31,579						
Equity compensation	—	—	2,873	—	—	2,873						
Foreign currency translation	—	—	—	516	—	516						
Tax withholding related to vesting of restricted stock units	—	—	(1,050)	—	—	(1,050)						
Issuance of shares for restricted stock units	215,275	—	—	—	—	—						
Balance at October 2, 2022	117,147,997	\$ 12	\$ 353,245	\$ 1,002	\$ 64,026	\$ 418,285						
							Shares	Amount	Capital	Loss	Earnings	Total
Balance at December 31, 2022	117,147,997	\$ 12	\$ 368,122	\$ (944)	\$ 48,800	\$ 415,990	117,147,997	\$ 12	\$ 368,122	\$ (944)	\$ 48,800	\$ 415,990
Net income	—	—	—	—	4,247	4,247	—	—	—	—	4,247	4,247
Equity compensation	—	—	394	—	—	394	—	—	394	—	—	394
Foreign currency translation	—	—	—	(199)	—	(199)	—	—	—	(199)	—	(199)
Tax withholding related to vesting of restricted stock units	—	—	(34)	—	—	(34)	—	—	(34)	—	—	(34)
Issuance of shares for restricted stock units	24,219	—	—	—	—	—	24,219	—	—	—	—	—
Balance at April 2, 2023	117,172,216	12	368,482	(1,143)	53,047	420,398	117,172,216	\$ 12	\$ 368,482	\$ (1,143)	\$ 53,047	\$ 420,398
Balance at December 31, 2023							117,707,280	\$ 12	\$ 373,869	\$ (710)	\$ 67,980	\$ 441,139
Net income	—	—	—	—	12,979	12,979	—	—	—	—	3,730	3,730

Equity compensation	—	—	1,806	—	—	1,806	—	—	1,141	—	—	1,141
Foreign currency translation	—	—	—	272	—	272	—	—	—	(186)	—	(186)
Tax withholding related to vesting of restricted stock units	—	—	(39)	—	—	(39)	—	—	(921)	—	—	(921)
Issuance of shares for restricted stock units	77,638	—	—	—	—	—	604,061	—	—	—	—	—
Balance at July 2, 2023	117,249,854	12	370,249	(871)	66,026	435,416						
Net income	—	—	—	—	752	752						
Equity compensation	—	—	2,970	—	—	2,970						
Foreign currency translation	—	—	—	(176)	—	(176)						
Tax withholding related to vesting of restricted stock units	—	—	(1,061)	—	—	(1,061)						
Issuance of shares for restricted stock units	223,268	—	—	—	—	—						
Balance at October 1, 2023	117,473,122	\$ 12	\$ 372,158	\$ (1,047)	\$ 66,778	\$ 437,901						
Balance at March 31, 2024					118,311,341	\$ 12	\$ 374,089	\$ (896)	\$ 71,710	\$ 444,901		

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

OPERATING ACTIVITIES:	CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) (unaudited)					
	For the thirty-nine weeks ended		For the thirteen weeks ended		March 31, 2024	April 2, 2023
	October 1, 2023	October 2, 2022				
Net income	\$ 17,978	\$ 89,000	\$ 3,730	\$ 4,247		
Adjustments to reconcile net income to net cash from operating activities:			7,738	7,500	2,464	2,485
Depreciation						

Amortization of intangible assets	11,040	10,985	3,436	3,679
Impairment of indefinite-lived intangible assets	—	2,395		
Amortization of deferred loan costs	1,339	1,277	436	445
Amortization of right of use assets	4,014	4,203	1,421	1,371
Gain on termination of leases	—	(279)		
Fair value adjustments to warrant liability	5,516	(51,112)	(3,127)	1,435
Fair value adjustments to earn-out liability	2,089	(9,282)	(649)	428
Fair value adjustments to interest rate collar	(3,185)	—	(2,281)	3,020
Equity compensation	5,170	9,518	1,141	394
Change in deferred taxes	(8,616)	(4,219)	(1,911)	(2,302)
Loss (gain) on disposal of property, plant and equipment	(227)	559		
Loss on early extinguishment of long-term debt			141	-
Gain on disposal of property, plant and equipment			(514)	(252)
Provision for inventory reserves	3,824	5,432	10,338	2,735
Provision for credit losses	744	403	76	436
Change in operating assets and liabilities:				
Accounts receivable	(1,054)	(8,573)	(467)	(9,623)
Inventories	21,046	(46,299)	(2,257)	1,899
Prepays and other current assets	4,862	1,027	(302)	146
Accounts payable	(5,413)	(1,922)	6,599	(7,611)
Accrued interest	(5,670)	1,416	(13)	(86)
Accrued and other liabilities	(4,332)	135	582	793
Net cash provided by operating activities	56,863	12,164	18,843	3,639
INVESTING ACTIVITIES:				
Capital expenditures	(4,417)	(11,745)	(1,265)	(1,001)
Proceeds from the disposal of fixed assets	1,292	473	174	318
Cash paid for acquisitions, net	—	(14,077)		
Net cash used in investing activities	(3,125)	(25,349)	(1,091)	(683)
FINANCING ACTIVITIES:				
Proceeds from issuance of long-term debt	—	27,000		
Principal payments on long-term debt	(40,437)	(31,790)	(16,748)	(7,284)
Deferred financing fees	(1,427)	—	—	(1,117)
Payments from stock-based award activities	(1,134)	(1,050)	(921)	(34)
Proceeds from issuance of common stock in connection with the exercise of Warrants	—	383		
Net cash used in financing activities	(42,998)	(5,457)	(17,669)	(8,435)
Effect of foreign currency rate fluctuations on cash	(57)	(1,077)	(37)	145
Net change in cash and cash equivalents	10,683	(19,719)	46	(5,334)
Cash and cash equivalents:				
Beginning of period	26,150	36,325	41,081	26,150
End of period	\$ 36,833	\$ 16,606	\$ 41,127	\$ 20,816
Supplemental disclosures of cash flow information:				
Cash paid for interest	\$ 50,290	\$ 25,070	\$ 13,307	\$ 14,919
Cash paid for income taxes	16,041	6,834	—	2,500
Noncash investing and financing activities:				
Vested Earn-Out Shares issued to Empower Sponsor Holdings LLC	\$ —	\$ —	\$ 14,689	

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

HOLLEY INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share data)
(unaudited)

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Holley Inc., a Delaware corporation headquartered in Bowling Green, Kentucky, conducts operations through its wholly owned subsidiaries. These operating subsidiaries are comprised of Holley Performance Products Inc., Hot Rod Brands, Inc., Simpson Safety Solutions, Inc., B&M Racing and Performance Products, Inc., and Speedshop.com, Inc. When used in these notes, the terms the "Company" or "Holley" mean Holley, Inc. and all entities included in its consolidated financial statements.

The Company consummated a business combination (the "Business Combination") pursuant to that certain Agreement and Plan of Merger dated March 11, 2021 (the "Merger Agreement"), by and among Empower Ltd., ("Empower"), Empower Merger Sub I Inc., Empower Merger Sub II LLC, and Holley Intermediate Holdings, Inc. ("Holley Intermediate") on July 16, 2021, (the "Closing" and such date, the "Closing Date"). The Business Combination was accounted for as a reverse recapitalization in which Holley Intermediate was deemed the accounting acquirer with Holley Inc. as the successor registrant. As such, Empower was treated as the acquired company for financial reporting purposes. On the Closing Date, Empower changed its name to Holley Inc. and its trading symbol on the NYSE from "EMPW" to "HLLY."

The Company designs, manufactures and distributes performance high-performance automotive products to customers car and truck enthusiasts primarily in the United States, Canada and Europe. The Company is a leading manufacturer of a diversified line of performance automotive products, including carburetors, fuel pumps, fuel injection systems, nitrous oxide injection systems, superchargers, exhaust headers, mufflers, distributors, ignition components, engine tuners and automotive performance plumbing products. The Company is also a leading manufacturer of exhaust products as well as shifters, converters, transmission kits, transmissions, tuners and automotive software. The Company's products are designed to enhance street, off-road, recreational and competitive vehicle performance through increased horsepower, torque and drivability. The Company has locations in the United States, Canada, Italy and China.

Emerging Growth Company Status

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company is an emerging growth company, and, as such, has elected to take advantage of the benefits of the extended transition period for new or revised financial accounting standards.

Risks and Uncertainties

The Company's business and results of operations, financial condition, and liquidity are impacted by broad economic conditions, including inflation, labor shortages, and disruption of the supply chain, as well as by geopolitical events, including the conflict in Ukraine, the conflict in Israel and surrounding areas, the Middle East, and the possible expansion of such conflicts and potential geopolitical consequences. The Company's operations have been adversely impacted by inflationary pressures primarily related to various economic factors that affect both consumers and the automotive aftermarket industry, including by not limited to transportation, labor and component costs. Sales growth in certain products has been constrained by inflation, fuel costs, wage rates, supply chain challenges, disruptions, hiring, and automotive electronic component shortages, other economic conditions. In response to the global inflationary impacts and supply chain volatility and inflationary impacts, disruptions, the Company has attempted to minimize potential adverse impacts on its business with cost savings initiatives, price increases to customers, and by increasing increased attention to maintaining appropriate inventory levels of certain products and working closely with its suppliers and customers to minimize disruptions in delivering products to customers. Our the distribution channel. The Company's profitability has been, and may continue to be, adversely affected by constrained consumer demand, a shift in sales to lower-margin products, and demands on our performance that increase our costs. Should the ongoing macroeconomic conditions not improve, or worsen, or if the Company's attempt to mitigate the impact on its supply chain, operations and costs is not successful, the Company's business, results of operations and financial condition may be adversely affected.

HOLLEY INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

(audited)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP") and applicable rules and regulations of the SEC regarding interim financial reporting. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2022, 2023, as filed with the SEC on March 15, 2023, 14, 2024, in the Company's annual report on Form 10-K. In management's opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. Operating results for any quarter are not necessarily indicative of the results for the full fiscal year.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

The Company operates on a fiscal year that ends on December 31. The three- and nine-month periods ended **October 1, 2023** **March 31, 2024** and **October April 2, 2022** **2023** each included 13 weeks and 39 weeks, respectively.

Principles of Consolidation

These unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Summary of Significant Accounting Policies

The following are updates to the significant accounting policies described in our audited consolidated financial statements as of and for the year ended December 31, 2022.

Equity-Based Compensation

The Company accounts for equity-based awards granted to employees and nonemployees under the fair value method prescribed by Accounting Standards Codification ("ASC") Subtopic 718-10, Stock Compensation. Equity-based compensation cost is measured based on the estimated grant date fair value of the award and is recognized as expense over the requisite service period (generally the vesting period). The fair value of stock options is estimated using the Black Scholes option-pricing model. Restricted stock units are valued at the stock price on the grant date. The fair value of profit interest units granted by Holley Parent Holdings, LLC (the "Holley Stockholder") is estimated based on the Company's estimated equity value for each unit class at the time of granting using the Black-Scholes option-pricing model, discounted to reflect market considerations for illiquidity.

Performance share units that vest based on the achievement of company-designated performance targets are valued at the stock price on the grant date. Compensation expense in respect of such performance share units is recognized each period based on the expected level of achievement and, to the extent that the expected levels of achievement change, compensation cost is adjusted in the period of change with the remaining unrecognized cost recognized over the remaining requisite service period. For performance share units that vest based on the achievement of predetermined market conditions, the Company estimates the grant date fair value using a Monte Carlo simulation model. The fair value associated with each tranche of the award is recognized, straight-line, over the associated requisite service period for that tranche, subject to acceleration if the market condition is met prior to the end of the derived service period.

Unless the awards contain a market condition, previously recognized expense related to forfeited awards is reversed in the period in which the forfeiture occurs. For awards containing a market condition, previously recognized stock-based compensation expense is not reversed when the awards are forfeited as long as the service is provided for the duration of the required service period.

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Derivative Financial Instruments

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives in accordance with ASC Topic 815, Derivatives and Hedging. For derivative financial instruments that are accounted for as assets or liabilities, the derivative instrument is initially recorded at its fair value on the grant date and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. Derivative assets and liabilities are classified on the balance sheet as current or non-current based on whether or not net cash settlement or conversion of the instrument could be required within 12 months of the balance sheet date.

The Company uses derivative instruments to manage its exposure to changes in interest rates on borrowings under its debt facility. These derivative instruments are primarily valued on the basis of quotes obtained from banks, brokers, and/or dealers. The valuation of the derivative instruments considers future expected interest rates on the notional principal balance remaining, which is comparable to what a prospective acquirer would pay on the measurement date. Valuation pricing models consider inputs such as forward rates, anticipated interest rate volatility relating to the reference rate, as well as time value, counterparty risk and other factors underlying derivative instruments.

Recent Accounting Pronouncements

Accounting Standards Recently Not Yet Adopted

In **October 2021**, **2023**, the **Financial FASB** issued **ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to SEC's Disclosure Update and Simplification Initiative**. This ASU amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Board issued Accounting Standards Update ("ASU") Codification. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-2021 X- or Regulation S-K becomes effective, with early adoption prohibited. The Company will monitor the removal of various requirements from the current regulations in order to determine when to adopt the related amendments, but it does **08**, not **Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers**. This ASU requires entities to apply the definition of a performance obligation under ASC Topic 606, **Revenue from Contracts with Customers**, to recognize and measure contract assets and contract liabilities (i.e., deferred revenue) relating to contracts with customers **anticipate** that are acquired in a business combination.

Prior to the adoption of ASU 2021-08, an acquirer generally recognized assets acquired, and liabilities assumed in the new guidance will have a business combination, including contract assets and contract liabilities arising from revenue contracts with customers, at fair value material impact on the acquisition date. ASU No.2021-08 results in the acquirer recording acquired contract assets Company's consolidated financial statements and liabilities on the same basis that would have been recorded by the acquiree before the acquisition under ASC Topic 606. The Company adopted ASU 2021-08 will continue to evaluate the impact of this guidance on January 1, 2023. Adoption of ASU 2021-08 did not impact the Company's its consolidated financial statements.

In 11 November 2023,

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(the FASB issued ASU 2023-07, *Segment Reporting (Topic280): Improvements to Reportable Segment Disclosures*. This ASU expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The standard requires interim and annual disclosure of significant segment expenses that are regularly provided to the chief operating decision-maker ("CODM") and included within the reported measure of a segment's profit or loss, requires interim disclosures about a reportable segment's profit or loss and assets that are currently required annually, requires disclosure of the position and title of the CODM, clarifies circumstances in thousands, except share data)
(unaudited)

which an entity can disclose multiple segment measures of profit or loss, and contains other disclosure requirements. This ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the effect of this new guidance on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic740): Improvements to Income Tax Disclosures*. This ASU requires additional disclosures of various income tax components that affect the rate reconciliation based on the applicable taxing jurisdictions, as well as the qualitative and quantitative aspects of those components. The standard also requires information pertaining to taxes paid to be disaggregated for federal, state and foreign taxes, and contains other disclosure requirements. This ASU is effective for fiscal years beginning after December 15, 2024 and interim periods within fiscal years beginning after December 15, 2025, with early adoption permitted. The Company is currently evaluating the effect of this new guidance on its consolidated financial statements and related disclosures.

2. ACQUISITIONS INVENTORY

In 2022, inventories of the Company completed three acquisitions. These acquisitions are expected to enhance consisted of the Company's portfolio of products and services in the automotive aftermarket and automotive safety solutions market, following:

The Company accounts for acquisitions using the acquisition method, and accordingly, the purchase price has been allocated based upon the fair value of the assets acquired and liabilities assumed. Goodwill generated by the acquisitions is primarily attributable to the strong market position of the entities acquired.

	As of	
	March 31, 2024	December 31, 2023
Raw materials	\$ 57,416	\$ 63,552
Work-in-process	6,145	22,619
Finished goods	120,455	106,089
	\$ 184,016	\$ 192,260

Purchase price consideration for all acquisitions was paid primarily in cash. All acquisitions were for During the 100 13 percent of the acquired business and are reported in the Consolidated Statements of Cash Flows, net of acquired cash and cash equivalents. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs, are typically expensed in the periods in which the costs are incurred and are recorded in acquisition and restructuring costs. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

In week period ended 2022, March 31, 2024, the Company acquired substantially all the assets recognized inventory charges of John's Ind., Inc., Southern Kentucky Classics, and Vesta Motorsports USA, Inc., doing business as RaceQuip. These acquisitions were immaterial business combinations. Cash paid for the three acquisitions, net of cash acquired, was \$14,863, and was funded with borrowings from the Company's credit facility and cash on hand. The acquisitions resulted in both amortizable and nonamortizable intangibles and goodwill totaling \$10,553. The goodwill and intangibles generated as a result of these acquisitions are deductible for income tax purposes. The final allocation of the purchase price allocation \$9,713, primarily due to specific assets acquired and liabilities assumed was adjusted to reflect the final fair value estimate of acquired assets and liabilities, as noted below.

The allocation of the purchase price to the assets acquired and liabilities assumed was based on estimates of the fair value of the net assets as follows:

	Measurement		
	2022		2022
	(as initially reported)	Period	(as adjusted)
Accounts receivable	\$ 959	\$ (397)	\$ 562
Inventory	3,481	146	3,627

Property, plant and equipment	275	—	275
Other assets	1,132	(1,108)	24
Tradenames	1,689	—	1,689
Customer relationships	1,512	—	1,512
Goodwill	5,858	1,494	7,352
Accounts payable	(25)	(133)	(158)
Accrued liabilities	(18)	(2)	(20)
	<u>\$ 14,863</u>	<u>\$ —</u>	<u>\$ 14,863</u>

The fair value of the acquired customer relationship intangible asset was estimated using the excess earnings approach. The customer relationship intangible asset is being amortized based on the attrition rate of customers which was determined to be 20 years. The fair value of the acquired tradenames intangible asset was estimated using the relief from royalty method, a form of the income approach. The tradenames were determined to have an indefinite life. product rationalization initiatives aimed at eliminating unprofitable or slow-moving stock keeping units.

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3. INVENTORY

Inventories of the Company consisted of the following:

	As of	
	October 1, 2023	December 31, 2022
Raw materials	\$ 67,811	\$ 78,586
Work-in-process	23,424	23,906
Finished goods	115,926	131,081
	<u>\$ 207,161</u>	<u>\$ 233,573</u>

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment of the Company consisted of the following:

	As of		As of	
	October 1, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Land	\$ 3,326	\$ 3,426	\$ 3,326	\$ 3,326
Buildings and improvements	11,164	11,051	11,576	11,404
Machinery and equipment	71,620	66,140	73,774	73,332
Construction in process	6,592	9,563	6,790	6,224
Total property, plant and equipment	92,702	90,180	95,466	94,286
Less: accumulated depreciation	44,676	37,999	49,090	47,080
Property, plant and equipment, net	<u>\$ 48,026</u>	<u>\$ 52,181</u>	<u>\$ 46,376</u>	<u>\$ 47,206</u>

The Company's long-lived assets by geographic locations are as follows:

	As of		As of	
	October 1, 2023	December 31, 2022	March 31, 2024	December 31, 2023
United States	\$ 46,056	\$ 50,434	\$ 43,861	\$ 44,931
International	1,970	1,747	2,515	2,275
Total property, plant and equipment, net	<u>\$ 48,026</u>	<u>\$ 52,181</u>	<u>\$ 46,376</u>	<u>\$ 47,206</u>

HOLLEY INC.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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5.4. GOODWILL AND OTHER INTANGIBLE ASSETS

The following presents changes to goodwill for the period indicated:

	For the thirty-nine weeks ended October 1, 2023
Balance on December 31, 2022	418,121
Measurement period adjustments	935
Balance on October 1, 2023	<u><u>\$ 419,056</u></u>

Goodwill represents the premium paid over the fair value of the net tangible and identifiable intangible assets acquired in the Company's business combinations. The measurement period for the valuation of assets acquired and liabilities assumed ends as soon as information on the facts and circumstances that existed as of the acquisition date becomes available. There were not no to exceed 12 months. Adjustments in purchase price allocations may require a change in the amounts allocated changes to goodwill during the periods in which the adjustments are determined. 13-week period ended March 31, 2024.

No goodwill impairment charges were incurred during the 13-week and 39-week periods period ended October 1, 2023 March 31, 2024 and October April 2, 2022 2023. During the third quarter of 2022, management concluded that it was necessary to reevaluate goodwill and indefinite-lived intangible assets for impairment due to supply chain constraints that resulted in the Company revising its earnings estimates for 2022. As a result of this evaluation, a pre-tax impairment of \$2.4 million was recognized on certain indefinite-lived tradenames. Potential changes in the Company's costs and operating structure, the implementation of synergies, and overall performance in the automotive aftermarket industry, could negatively impact near-term cash-flow projections and could trigger a potential impairment of the Company's goodwill and / or indefinite-lived intangible assets. In addition, failure to execute the Company's strategic plans as well as increases in weighted average costs of capital could negatively impact the fair value of the reporting unit and increase the risk of future impairment charges.

HOLLEY INC.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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Intangible assets consisted of the following:

	October 1, 2023			March 31, 2024		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:						
Customer relationships	\$ 269,950	\$ (52,844)	\$ 217,106	\$ 269,950	\$ (58,620)	\$ 211,330
Tradenames	13,775	(5,387)	8,388	13,775	(5,750)	8,025
Technology	26,676	(13,353)	13,323	26,676	(14,167)	12,509
Total finite-lived intangible assets	<u><u>\$ 310,401</u></u>	<u><u>\$ (71,584)</u></u>	<u><u>\$ 238,817</u></u>	<u><u>\$ 310,401</u></u>	<u><u>\$ (78,537)</u></u>	<u><u>\$ 231,864</u></u>
Indefinite-lived intangible assets:						
Tradenames	\$ 174,957	—	\$ 174,957	\$ 175,032	—	\$ 175,032

	December 31, 2022			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:						

Customer relationships	\$ 269,950	\$ (44,178)	\$ 225,772	\$ 269,950	\$ (55,732)	\$ 214,218
Tradenames	13,775	(4,843)	8,932	13,775	(5,569)	8,206
Technology	26,676	(11,523)	15,153	26,676	(13,800)	12,876
Total finite-lived intangible assets	\$ 310,401	\$ (60,544)	\$ 249,857	\$ 310,401	\$ (75,101)	\$ 235,300
Indefinite-lived intangible assets:						
Tradenames	\$ 174,998	—	\$ 174,998	\$ 175,165	—	\$ 175,165

The following outlines the estimated future amortization expense related to intangible assets held as of **October 1, 2023** **March 31, 2024**:

2023 (excluding the thirty-nine weeks ended October 1, 2023)	\$ 3,517
2024	13,744
2024 (excluding the thirteen weeks ended March 31, 2024)	\$ 10,307
2025	13,714
2026	13,608
2027	13,493
2028	13,602
Thereafter	180,741
Total	\$ 238,817
	\$ 231,864

5. ACCRUED LIABILITIES

Accrued liabilities of the Company consisted of the following:

	As of	
	March 31, 2024	December 31, 2023
Accrued freight	\$ 6,010	\$ 5,654
Accrued employee compensation and benefits	10,141	11,696
Accrued returns and allowances	12,072	11,267
Accrued taxes	1,581	1,475
Current portion of operating lease liabilities	4,476	4,948
Accrued other	9,300	7,089
Total accrued liabilities	\$ 43,580	\$ 42,129

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6. ACCRUED LIABILITIES

Accrued liabilities of the Company consisted of the following:

	As of	
	October 1, 2023	December 31, 2022
Accrued freight	\$ 5,468	\$ 6,861
Accrued employee compensation and benefits	11,327	6,259
Accrued returns and allowances	5,758	5,214
Accrued taxes	4,030	5,222
Current portion of operating lease liabilities	5,231	5,112
Accrued other	10,411	14,649
Total accrued liabilities	\$ 42,225	\$ 43,317

7. DEBT

Debt of the Company consisted of the following:

	As of		As of	
	October 1, 2023	December 31, 2022	March 31, 2024	December 31, 2023
First lien term loan due November 17, 2028	\$ 619,147	\$ 649,350	\$ 575,862	\$ 592,505
Revolver	—	10,000	—	—
Other	2,122	2,770	1,312	1,974
Less unamortized debt issuance costs	(11,191)	(11,557)	(9,618)	(10,308)
	610,078	650,563	567,556	584,171
Less current portion of long-term debt	(6,571)	(7,000)	(7,444)	(7,461)
	\$ 603,507	\$ 643,563	\$ 560,112	\$ 576,710

On November 18, 2021, the Company entered into a credit facility with a syndicate of lenders and Wells Fargo Bank, N.A., as administrative agent for the lenders, letter of credit issuer and swing line lender (the "Credit Agreement"). The financing consisted of a seven-year \$600,000 first lien term loan, a five-year \$125,000 revolving credit facility, and a \$100,000 delayed draw term loan. The proceeds of delayed draw loans made after closing were available to the Company to finance acquisitions. Upon the expiration of the delayed draw term loan in May 2022, the Company had drawn \$57,000, which is included in the amount outstanding under the first lien term loan due November 17, 2028. Proceeds from the credit facility were used to repay in full the Company's obligations under its previously existing first lien and second lien notes and to pay \$13,413 in deferred financing fees related to the refinancing.

The revolving credit facility includes a letter of credit facility in the amount of \$10,000, pursuant to which letters of credit may be issued as long as revolving loans may be advanced and subject to availability under the revolving credit facility. The Company had \$1,728 in outstanding letters of credit on October 1, 2023 March 31, 2024. Proceeds from the credit facility were used to repay in full the Company's obligations under its previously existing first lien and second lien notes and to pay \$13,413 in deferred financing fees related to the refinancing.

The first lien term loan is to be repaid in quarterly payments of \$1,643 through September 30, 2028 with the balance due upon maturity on November 17, 2028. The Company is required to make annual payments on the term loan in an amount equal to 50% of annual excess cash flow greater than \$5,000, as defined in the Credit Agreement. This percentage requirement may decrease or be eliminated if certain leverage ratios are achieved. Based on the Company's results for 2022, 2023, no excess cash flow payment was required in 2023, 2024. Any such payments offset future mandatory quarterly payments. The Credit Agreement permits voluntary prepayments at any time, in whole or in part. The Company paid down an aggregate of \$24,845 in repurchased \$15,000 outstanding principal on its outstanding first lien term loan by repurchasing \$13,845 at a discount to par and making a voluntary repayment of \$11,000 during the 13-week period ended October 1, 2023 March 31, 2024.

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As of October 1, 2023 March 31, 2024, amounts outstanding under the credit facility accrue interest at a rate equal to either the Secured Overnight Financing Rate ("SOFR") or base rate, at the Company's election, plus a specified margin. In the case of revolving credit loans and letter of credit fees, the specified margin is based on the Company's Total Leverage Ratio, as defined in the Credit Agreement. Commitment fees payable under the revolving credit facility are based on the Company's Total Leverage Ratio. On October 1, 2023 March 31, 2024, the weighted average interest rate on the Company's borrowings under the credit facility was 9.4% 9.2%.

The Company has entered into an interest rate collar in the notional amount of \$500,000 to hedge the Company's exposure to fluctuations in interest rates on its variable-rate debt. Refer to Note 9, 8, "Derivative Instruments," for additional information.

Obligations under the Credit Agreement are secured by substantially all of the Company's assets, including a secured interest in the Company's headquarter, with a carrying value of \$5,947. The Credit Agreement includes representations and warranties and affirmative and negative covenants customary for financings of this type, including, but not limited to, limitations on restricted payments, additional borrowings, additional investments, and asset sales.

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In February 2023, the Company entered into an amendment to the Credit Agreement which, among other things, increases the consolidated net leverage ratio financial covenant level Total Leverage Ratio applicable under the Credit Agreement as of the quarter ending April 2, 2023 through the quarter ending March 31, 2024 (the "Covenant Relief Period"), to initially 7.25:1.00, and provides for modified step-down levels for such covenant thereafter, thereafter through the fiscal quarter ending March 31, 2024 (the "Covenant Relief Period"). As of March 31, 2024, the required Total Leverage Ratio was 5.75:1.00. As an ongoing condition to the Covenant Relief Period, the Company also agreed to (i) a minimum liquidity test, (ii) an interest coverage test, (iii) an anti-cash hoarding test at any time revolving loans are outstanding, and (iv) additional reporting obligations. Under the amended Credit Agreement, the revolving credit facility contains a minimum liquidity financial covenant of \$45,000, which includes unrestricted cash and any available borrowing capacity under the revolving credit facility. In April 2023, the Company entered into a second amendment to the Credit Agreement in which the interest rate on any outstanding borrowings under the Credit Agreement was changed from LIBOR to SOFR. In May 2023, the Company entered into a third amendment to the Credit Agreement in which certain defined terms were clarified. The Company incurred \$1,427 of deferred financing fees related to these amendments. On October 1, 2023 March 31, 2024, the Company was in compliance with all financial covenants.

Some of the lenders that are parties to the Credit Agreement, and their respective affiliates, have various relationships with the Company in the ordinary course of business involving the provision of financial services, including cash management, commercial banking, investment banking or other services.

Future maturities of long-term debt and amortization of debt issuance costs as of October 1, 2023 March 31, 2024 are as follows:

	Debt	Debt Issuance Costs	Debt	Debt Issuance Costs
2023 (excluding the thirty-nine weeks ended October 1, 2023)	\$ 1,855	\$ 446		
2024	7,425	1,869		
2024 (excluding the thirteen weeks ended March 31, 2024)			\$ 5,582	\$ 1,307
2025	7,628	2,016	7,230	1,876
2026	6,571	2,178	6,571	2,034
2027	6,571	2,354	6,572	2,209
Thereafter	591,219	2,328		
2028			551,219	2,192
	\$ 621,269	\$ 11,191	\$ 577,174	\$ 9,618

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8.7. COMMON STOCK WARRANTS AND EARN-OUT LIABILITY

The Company consummated a business combination (the "Business Combination") pursuant to that certain Agreement and Plan of Merger dated March 11, 2021 (the "Merger Agreement"), by and among Empower Ltd., ("Empower"), Empower Merger Sub I Inc., Empower Merger Sub II LLC, and Holley Intermediate Holdings, Inc. ("Holley Intermediate") on July 16, 2021, (the "Closing" and such date, the "Closing Date"). Upon the Closing, there were 14,666,644 Warrants, consisting of 9,999,977 public warrants ("Public Warrants") and 4,666,667 private warrants ("Private Warrants" and together with the Public Warrants, the "Warrants"), outstanding to purchase shares of Common Stock that were issued by Empower prior to the Business Combination. Each Warrant entitles the registered holder to purchase one share of Common Stock at a price of \$11.50 per share, subject to adjustments, provided that the Company has an effective registration statement under the Securities Act covering the shares of common stock issuable upon exercise of the Warrants and a current prospectus relating to them is available and such shares are registered, qualified or exempt from registration under the securities laws of the state of residence of the holder. The Warrants may be exercised only for a whole number of shares of Common Stock. The Warrants expire on July 16, 2026, the date that is five years after the Closing Date, or earlier upon redemption or liquidation. Additionally, the Private Warrants will be non-redeemable and are exercisable on a cashless basis so long as they are held by Empower Sponsor Holdings, LLC (the "Sponsor") or any of its permitted transferees. If the Private Warrants are held by someone other than the Sponsor or its permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

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The Company may redeem the Public Warrants at a price of \$0.01 per warrant upon 30 days' notice if the closing price of Common Stock equals or exceeds \$18.00 per share, subject to adjustments, on the trading day prior to the date on which notice of redemption is given, provided there is an effective registration statement and current prospectus in effect with respect to the ordinary shares underlying such Warrants throughout the 30-day redemption period. If the foregoing conditions are satisfied and the Company issues a notice of redemption of the Warrants, the Warrant holder is entitled to exercise his, her or its Warrant prior to the scheduled redemption date. Any such exercise requires the Warrant holder to pay the exercise price for each Warrant being exercised. Further, the Company may redeem the Public Warrants at a price of \$0.10 per warrant upon 30 days' notice if the closing price of Common Stock equals or exceeds \$10.00 per share, subject to adjustments, on the trading day prior to the date on which notice of redemption is given. Beginning on the date the notice of redemption is given until the Warrants are redeemed or exercised, holders may elect to exercise their Warrants on a cashless basis and receive that number of shares of Common Stock as determined by reference to a table in the warrant agreement.

During any period when the Company has failed to maintain an effective registration statement, warrant holders may exercise Warrants on a cashless basis in accordance with Section 3(a)(9) of the Securities Act or another exemption, and the Company will use its commercially reasonable best efforts to register or qualify the shares under applicable blue-sky laws to the extent an exemption is not available.

The Company's Warrants are accounted for as a liability in accordance with ASC 815-40 and are presented as a warrant liability on the balance sheet. The warrant liability was measured at fair value at inception and on a recurring basis, with changes in fair value recognized as non-operating expense. As of **October 1, 2023** **March 31, 2024** and December 31, **2022**, **2023**, a warrant liability with a fair value of **\$9,788** **\$5,256** and **\$4,272**, **\$8,383**, respectively, was reflected as a long-term liability in the condensed consolidated balance sheet. An **A de**crease of **\$2,064** **\$3,127** and a **decrease** **an increase** of **\$30,171** **\$1,435** in the fair value of the warrant liability was reflected as change in fair value of warrant liability in the condensed consolidated statements of comprehensive income for the 13-week periods ended **October 1, 2023** **March 31, 2024** and **October April 2, 2022** **2023**, respectively. An increase of **\$5,516** and a decrease of **\$51,112** in the fair value of the warrant liability was reflected as change in fair value of warrant liability in the condensed consolidated statements of comprehensive income for the 39-week periods ended **October 1, 2023** and **October 2, 2022**, respectively. In April 2022, the Company issued 33,333 shares of Common Stock in connection with the exercise of Public Warrants assumed in the Business Combination.

Additionally, the Sponsor received 2,187,500 shares of Common Stock upon the Closing, which vest in two equal tranches upon achievement of certain market share price milestones during the earn-out period, as outlined in the Merger Agreement (the "Earn-Out Shares"). The first tranche of Earn-Out Shares vested during the first quarter of 2022. Upon vesting, the first tranche of 1,093,750 Earn-Out Shares were issued and a liability of \$14,689, representing the fair value of the shares on the date of vesting, was reclassified from liabilities to equity. The remaining tranche of Earn-Out Shares will be forfeited if the applicable conditions are not satisfied before July 16, 2028 (seven years after the Closing Date). The unvested Earn-Out Shares are presented as an earn-out liability on the balance sheet and are remeasured at fair value with changes in fair value recognized as non-operating expense. As of **October 1, 2023** **March 31, 2024** and December 31, **2022**, **2023**, an earn-out liability with a fair value of **\$3,265** **\$2,830** and **\$1,176**, **\$3,479**, respectively, was reflected as a long-term liability in the condensed consolidated balance sheet. An **A de**crease of **\$649** and an **increase** of **\$700** and a **decrease** of **\$7,429** **\$428** in the fair value of the earn-out liability was reflected as change in fair value of earn-out liability in the condensed consolidated statements of comprehensive income for the 13-week periods ended **October 1, 2023** **March 31, 2024** and **October April 2, 2022**, respectively. An increase of **\$2,089** and a **decrease** of **\$9,282** in the fair value of the earn-out liability was reflected as change in fair value of earn-out liability in the condensed consolidated statements of comprehensive income for the 39-week periods ended **October 1, 2023** and **October 2, 2022**, respectively.

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9.8. DERIVATIVE INSTRUMENTS

The Company from time to time enters into derivative financial instruments, such as interest rate collar agreements (each, a "Collar"), to manage its exposure to fluctuations in interest rates on the Company's variable rate debt. On January 4, 2023, the Company entered into a Collar with Wells Fargo Bank, N.A. ("Wells Fargo") with a notional amount of \$500,000 that expires on February 18, 2026. The Collar has a floor of 2.811% and a cap of 5% (based on three-month SOFR). The structure of this Collar is such that the Company receives an incremental amount if the Collar index exceeds the cap rate. Conversely, the Company pays an incremental amount to Wells Fargo if the Collar index falls below the floor rate. No payments are required if the Collar index falls between the cap and floor rates.

As of **October 1, 2023** **March 31, 2024**, the Company recognized a derivative asset of **\$3,185** **\$1,117** for the Collar in other noncurrent assets on the condensed consolidated balance sheet. For the 13-week and 39-week periods ended **October 1, 2023**, the Company recorded a net change in the fair value of the Collar as a decrease to interest expense of **\$1,117** **\$2,281** and **\$3,185**, as an increase to interest expense of **\$3,020**, for the 13-week periods ended **March 31, 2024** and **April 2, 2023**, respectively. Cash receipts for the Collar totaled **\$125** **\$469** for both the 13-week and 39-week periods period ended **October 1, 2023** **March 31, 2024**.

The fair value of the Collar is determined using observable market-based inputs and the impact of credit risk on the derivative's fair value (the creditworthiness of the Company's counterparty for assets and the creditworthiness of the Company for liabilities) (a Level 2 measurement, as described in Note **10.9**, "Fair Value Measurements").

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10.9. FAIR VALUE MEASUREMENTS

The Company's financial liabilities subject to fair value measurement on a recurring basis and the level of inputs used for such measurements were as follows:

	Fair Value Measured on October 1, 2023					Fair Value Measured on March 31, 2024										
	Level 1		Level 2		Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3			
	\$	—	\$	3,185	\$	—	\$	3,185	\$	—	\$	1,117	\$	—	\$	1,117
Assets:																
Interest rate collar	\$	—	\$	3,185	\$	—	\$	3,185	\$	—	\$	1,117	\$	—	\$	1,117
Liabilities:																
Warrant liability (Public)	\$	6,379	\$	—	\$	—	\$	6,379	\$	3,488	\$	—	\$	—	\$	3,488
Warrant liability (Private)	—	—	—	—	3,409	3,409	—	—	—	—	1,768	1,768	—	—	—	—
Earn-out liability	—	—	—	—	3,265	3,265	—	—	—	—	2,830	2,830	—	—	—	—
Total fair value liabilities	\$	6,379	\$	—	\$	6,674	\$	13,053	\$	3,488	\$	—	\$	4,598	\$	8,086
Liabilities:																
Warrant liability (Public)	\$	2,691	\$	—	\$	—	\$	2,691	\$	5,480	\$	—	\$	—	\$	5,480
Warrant liability (Private)	—	—	—	—	1,581	1,581	—	—	—	—	2,903	2,903	—	—	—	—
Earn-out liability	—	—	—	—	1,176	1,176	—	—	—	—	3,479	3,479	—	—	—	—
Interest rate collar liability	—	—	—	—	—	—	—	—	—	1,164	—	—	—	—	—	1,164
Total fair value liabilities	\$	2,691	\$	—	\$	2,757	\$	5,448	\$	5,480	\$	1,164	\$	6,382	\$	13,026

As of **October 1, 2023** **March 31, 2024**, the Company's derivative liabilities for its Private and Public Warrants, earn-out liability, and derivative asset for its Collar are measured at fair value on a recurring basis (see Note 8.7, "Common Stock Warrants and Earn-Out Liability," and Note 9.8, "Derivative Instruments," for more details). The fair values of the Private Warrants and earn-out liability are determined based on significant inputs not observable in the market (Level 3). The valuation of the Level 3 liabilities uses assumptions and estimates the Company believes would be made by a market participant in making the same valuation. The Company assesses these assumptions and estimates on an on-going basis as additional data impacting the assumptions and estimates are obtained. The Company uses a Monte Carlo simulation model to estimate the fair value of its Private Warrants and earn-out liability. The fair value of the Collar, which is included in other noncurrent assets on the condensed consolidated balance sheet, is determined based on models that reflect the contractual terms of the derivative, yield curves, and the credit quality of the counterparties. Inputs are generally observable and do not contain a high level of subjectivity (Level 2). The fair value of the Public Warrants is determined using publicly traded prices (Level 1). Changes in the fair value of the derivative liabilities related to Warrants and the earn-out liability are recognized as non-operating expense in the condensed consolidated statements of comprehensive income. Changes in the fair value of the Collar is recognized as an adjustment to interest expense in the condensed consolidated statements of comprehensive income. **Changes in the fair value of the derivative liabilities related to Warrants and the earn-out liability and changes in the fair value of the Collar are recognized in net cash provided by operating activities on the condensed consolidated statements of cash flows.**

The fair value of Private Warrants was estimated as of the measurement date using the Monte Carlo simulation model with the following assumptions:

	March 31, 2024	December 31, 2023
Valuation date price	\$ 4.46	\$ 4.87
Strike price	\$ 11.50	\$ 11.50
Remaining life (in years)	2.29	2.54
Expected dividend	\$ —	\$ —
Risk-free interest rate	4.42 %	4.01

Price threshold	\$ 18.00	\$ 18.00
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The fair value of Private Warrants was estimated as of the measurement date using the Monte Carlo simulation model with the following assumptions:

	October 1, 2023	December 31, 2022
Valuation date price	\$ 4.99	\$ 2.12
Strike price	\$ 11.50	\$ 11.50
Remaining life (in years)	2.79	3.54
Expected dividend	\$ —	\$ —
Risk-free interest rate	4.72 %	4.06
Price threshold	\$ 18.00	\$ 18.00

The fair value of the earn-out liability was estimated as of the measurement date using the Monte Carlo simulation model with the following assumptions:

	October 1, 2023	December 31, 2022	March		December
			31, 2024	31, 2023	
Valuation date price	\$ 4.99	\$ 2.12	\$ 4.46	\$ 4.87	
Expected term (in years)	4.79	5.54	4.29	4.54	
Expected volatility	57.68 %	70.33 %	65.22 %	67.20 %	
Risk-free interest rate	4.49 %	3.88 %	4.17 %	3.79 %	
Price hurdle	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	

As of October 1, 2023 March 31, 2024 and December 31, 2022, 2023, the Company has accounts receivable, accounts payable and accrued expenses for which the carrying value approximates fair value due to the short-term nature of these instruments. The carrying value of the Company's long-term debt approximates fair value as the rates used approximate the market rates currently available to the Company. Fair value measurements used in the impairment reviews of goodwill and intangible assets are Level 3 measurements.

The reconciliation of changes in Level 3 liabilities during the 39 13-week periods ended October 1, 2023 March 31, 2024 and October April 2, 2022 2023 is as follows:

	Private Warrants	Earn-Out Liability	Total
Balance at December 31, 2021	\$ 21,793	\$ 26,596	\$ 48,389
Liabilities reclassified to equity	—	(14,689)	(14,689)
Gains included in earnings	(7,653)	(1,853)	(9,506)
Balance at October 2, 2022	<u>\$ 14,140</u>	<u>\$ 10,054</u>	<u>\$ 24,194</u>
Balance at December 31, 2022	\$ 1,581	\$ 1,176	\$ 2,757
Losses included in earnings	1,828	2,089	3,917
Balance at October 1, 2023	<u>\$ 3,409</u>	<u>\$ 3,265</u>	<u>\$ 6,674</u>

	Private Warrants	Earn-Out Liability	Total
Balance at December 31, 2022	\$ 1,581	\$ 1,176	\$ 2,757
Losses included in earnings	518	428	946
Balance at April 2, 2023	<u>\$ 2,099</u>	<u>\$ 1,604</u>	<u>\$ 3,703</u>
Balance at December 31, 2023	\$ 2,903	\$ 3,479	\$ 6,382
Gains included in earnings	(1,135)	(649)	(1,784)

Balance at March 31, 2024	\$ 1,768	\$ 2,830	\$ 4,598
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11.10. REVENUE

The principal activity from which the Company generates its revenue is the manufacturing and distribution of after-market automotive parts for its customers, comprised of resellers and end users. The Company recognizes revenue at a point in time, rather than over time, as the performance obligation is satisfied when customer obtains control of the product upon title transfer and not as the product is manufactured or developed. The amount of revenue recognized is based on the purchase order price and adjusted for revenue allocated to variable consideration (i.e., estimated rebates, co-op advertising, etc.).

The Company collects sales tax and other taxes concurrent with revenue-producing activities which are excluded from revenue. Shipping and handling costs incurred after control of the product is transferred to our customers are treated as fulfillment costs and not a separate performance obligation.

The Company allows customers to return products when certain Company-established criteria are met. These sales returns are recorded as a charge against gross sales in the period in which the related sales are recognized, net of returns to stock. Returned products, which are recorded as inventories, are valued at the lower of cost or net realizable value. The physical condition and marketability of the returned products are the major factors considered in estimating realizable value. The Company also estimates expected sales returns and records the necessary adjustment as a charge against gross sales.

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The Company's payment terms with customers are customary and vary by customer and geography but typically range from 30 to 365 days. The Company elected the practical expedient to disregard the possible existence of a significant financing component related to payment on contracts, as the Company expects that customers will pay for the products within one year. The Company has evaluated the terms of our arrangements and determined that they do not contain significant financing components. Additionally, as all contracts with customers have an expected duration of one year or less, the Company has elected the practical expedient to exclude disclosure of information regarding the aggregate amount and future timing of performance obligations that are unsatisfied or partially satisfied as of the end of the reporting period. The Company provides limited warranties on most of its products against certain manufacturing and other defects. Provisions for estimated expenses related to product warranty are made at the time products are sold. Refer to Note 18, 15, "Commitments and Contingencies" for more information.

The following table summarizes total revenue by product category.

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	March	April 2,
					31, 2024	2023
Electronic systems	\$ 70,062	\$ 62,174	\$ 213,214	\$ 219,380	\$ 63,880	\$ 68,751
Mechanical systems	37,870	37,317	122,108	127,365	38,395	43,318
Exhaust	14,343	15,183	47,556	52,552	13,990	15,829
Accessories	21,788	24,561	75,635	81,660	23,384	27,465
Safety	12,467	15,540	45,484	53,293	18,987	16,842
Net sales	\$ 156,530	\$ 154,775	\$ 503,997	\$ 534,250	\$ 158,636	\$ 172,205

The following table summarizes total revenue based on geographic location from which the product is shipped:

For the thirteen weeks ended	For the thirty-nine weeks ended	For the thirteen weeks ended
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	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	March 31, 2024	April 2, 2023
United States	\$ 154,150	\$ 150,155	\$ 491,385	\$ 519,728	\$ 153,325	\$ 166,418
Italy	2,380	4,620	12,612	14,522	5,311	5,787
Net sales	\$ 156,530	\$ 154,775	\$ 503,997	\$ 534,250	\$ 158,636	\$ 172,205

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12.11. INCOME TAXES

The Company's effective income tax rate is based on expected income, statutory rates and tax planning opportunities available in the various jurisdictions in which it operates. For interim financial reporting, the Company estimates the annual income tax rate based on projected taxable income for the full year and records a quarterly income tax provision or benefit in accordance with the anticipated annual rate. The Company refines the estimates of the year's taxable income as new information becomes available, including actual year-to-date financial results. This continual estimation process often results in a change to the expected effective income tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected income tax rate. Significant judgment is required in determining the effective tax rate and in evaluating tax positions.

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023		October 1, 2023		March 31, 2024	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	April 2, 2023	
Income tax expense (benefit)	\$ 2,092	\$ (1,345)	\$ 7,756	\$ 8,866	\$ (891)	\$ 1,566
Effective tax rates	73.6%	(4.4)%	30.1%	9.1%		
Effective tax rate					(31.4)%	26.9%

For the 13-week period ended **October 1, 2023** **March 31, 2024**, the Company's effective tax rate of **73.6%** differed from the 21% federal statutory rate primarily **-31.4%** due to permanent differences related to changes in fair value of the warrant and earn-out liabilities recognized during the period and the impact of foreign taxes in higher tax rate jurisdictions. For the 13-week period ended **October 2, 2022**, the Company's effective tax rate of **-4.4%** differed from the 21% federal statutory rate primarily due to permanent differences related to changes in the fair value of the warrant and earn-out liabilities recognized during the period.

For the 39-week period ended **October 1, 2023**, the Company's effective tax rate of **30.1%** differed from the 21% federal statutory rate primarily due to permanent differences related to changes in fair value of the warrant and earn-out liabilities recognized during the **period** period, federal research and development tax credits, and the impact of foreign taxes in higher tax rate jurisdictions. In addition, the Company incurred expenses related to product rationalization that were determined to be significant and infrequent in nature; therefore, the full tax benefit of these expenses were recorded during the quarter as a discrete adjustment. For the **39** **13**-week period ended **October 2, 2022** **April 2, 2023**, the Company's effective tax rate of **9.1%****26.9%** differed from the 21% federal statutory rate primarily due **to** permanent **difference** differences related to changes in the fair value of the warrant and earn-out liabilities recognized during the period.

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13.12. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023		October 1, 2023		March 31, 2024	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	April 2, 2023	

Numerator:								
Net income	\$ 752	\$ 31,579	\$ 17,978	\$ 89,000	\$ 3,730	\$ 4,247		
Less: fair value adjustment for Warrants	—	—	—	(51,112)				
Net income - diluted	\$ 752	\$ 31,579	\$ 17,978	\$ 37,888				
Denominator:								
Weighted average common shares outstanding - basic	117,397,069	117,119,609	117,256,959	116,636,906	117,871,829	117,153,525		
Dilutive effect of potential common shares from RSUs	1,848,887	18,525	862,542	124,603	1,429,198	91,237		
Dilutive effect of potential common shares from Warrants	—	—	—	512,104				
Dilutive effect of potential common shares from PSUs					204,303	—		
Weighted average common shares outstanding - diluted	119,245,956	117,138,134	118,119,501	117,273,613	119,505,330	117,244,762		
Earnings per share:								
Basic	\$ 0.01	\$ 0.27	\$ 0.15	\$ 0.76	\$ 0.03	\$ 0.04		
Diluted	\$ 0.01	\$ 0.27	\$ 0.15	\$ 0.32	\$ 0.03	\$ 0.04		

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The following outstanding shares of Common Stock equivalents were excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive. Warrants to purchase shares of Common Stock having an exercise price greater than the average share market price are excluded from the calculation of diluted earnings per share.

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	March 31,	April 2,
					2024	2023
Anti-dilutive shares excluded from calculation of diluted EPS:						
Warrants	14,633,311	14,633,311	14,633,311	—	14,633,311	14,633,311
Stock options	922,228	1,769,614	922,228	1,769,614	701,849	1,117,102
Restricted stock units	175,783	220,051	175,783	220,051	61,470	429,948
Performance stock units	2,177,462	—	2,177,462	—	797,879	949,412
Unvested Earn-Out Shares	1,093,750	1,093,750	1,093,750	1,093,750	1,093,750	1,093,750
Total anti-dilutive shares	19,002,534	17,716,726	19,002,534	3,083,415	17,288,259	18,223,523

14. BENEFIT PLANS

On January 28, 2022, the Company approved the termination of its defined benefit pension plan (the "Plan"), effective March 31, 2022. The final distribution of the Plan's assets pursuant to the termination was made in the fourth quarter of 2022 when the Plan termination satisfied all regulatory requirements. Plan participants received their accrued benefits from plan assets by electing either lump sum distributions or annuity contracts with a qualifying third-party annuity provider.

The following table provides the components of net periodic benefit cost for the 13-week and 39-week periods ended October 2, 2022:

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 2, 2022	October 2, 2022	October 2, 2022	October 2, 2022
Components of expense:				
Service cost		\$ 27	\$ 81	
Interest cost		32	96	
Expected return on plan assets		(52)	(156	
Net periodic benefit cost	\$ 7	\$ 21		

The Company's contributions to the Plan were \$150 for the 39-week period ended October 2, 2022.

The Company made matching contributions totaling \$562 and \$587 to its 401(k) plan during the 13-week periods ended October 1, 2023 and October 2, 2022, respectively. The Company made matching contributions totaling \$1,702 and \$2,431 to its 401(k) plan during the 39-week periods ended October 1, 2023 and October 2, 2022, respectively.

15.13. EQUITY-BASED COMPENSATION PLANS

In 2021, the Company adopted the 2021 Omnibus Incentive Plan (the "2021 Plan"), under which awards, including stock options, restricted stock units ("RSUs") and performance stock units ("PSUs") may be granted to employees and non-employee directors. The 2021 Plan authorized 8,850,000 shares of Common Stock to be available for award grants. As of **October 1, 2023** **March 31, 2024**, **4,423,103** **4,754,499** shares of Common Stock remained available for future issuance under the 2021 Plan. On June 6, 2023, the Company granted 1,000,000 RSUs and 1,520,000 PSUs to its new President and Chief Executive Officer. These awards were granted outside of the 2021 Plan as employment inducement awards and did not require shareholder approval under the rules of the NYSE or otherwise.

Equity-based compensation expense included the following components:

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023		October 1, 2023		March 31, 2024	April 2, 2023
	\$ 1,331	\$ 876	\$ 3,146	\$ 3,409	\$ 774	\$ 648
Restricted stock units						
Performance stock units	1,322	—	1,696	—	390	52
Stock options	317	559	328	1,764	(23)	(306)
Profit interest units	—	1,438	—	4,345		

All equity-based compensation expenses are recorded in selling, general and administrative costs in the condensed consolidated statements of comprehensive income.

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All equity-based compensation expenses are recorded in selling, general and administrative costs in the condensed consolidated statements of comprehensive income.

Restricted Stock Units Awards

RSUs and PSUs are collectively referred to as "Restricted Stock Awards". The Compensation Committee has awarded RSUs to select employees and non-employee directors and has awarded PSUs to select employees. The RSUs vest ratably over one to four years of continued employment. The grant date fair value of a RSU at the grant date time-based award or a performance-based award without a market condition is equal to the market price of Common Stock on the grant date. Compensation expense for RSUs date and is recorded based on amortization of recognized over the requisite service period. The grant date fair value of a performance-based award with a market value condition is determined using a Monte Carlo simulation and is recognized over the period the restrictions lapse. As of **October 1, 2023** **March 31, 2024**, there was **\$7,608** **\$8,977** of unrecognized compensation cost related to unvested RSUs Restricted Stock Awards that is expected to be recognized over a remaining weighted average period of 2.4 years.

The weighted average grant date weighted-average grant-date fair value for RSUs was \$2.76 and \$11.46 for of Restricted Stock Awards granted during the 39 13-week periods ended **October 1, 2023** **March 31, 2024** and **October April 2, 2022** **2023**, was \$4.25 and \$2.11, respectively. The fair value of RSUs Restricted Stock Awards vested and converted to shares of Common Stock was \$685 for during the 39 13-week period periods ended **October 1, March 31, 2024** and **April 2, 2023**, was \$3,364 and \$146, respectively.

The following table summarizes RSU activity Restricted Stock Award for the 39 13-week period ended **October 1, 2023** **March 31, 2024**:

	Unvested Restricted Stock Units		Unvested Restricted Stock Awards	
	Weighted		Number of RSAs	Weighted
				Average Grant
	RSUs	Date Fair Value		Average Grant Date Fair Value
December 31, 2022	1,108,330	\$ 9.43		
Balance on December 31, 2023			4,904,801	\$ 2.86
Granted	2,459,140	2.76	803,080	4.25

Vested	(196,318)	11.07	(819,876)	2.61
Forfeited	(189,640)	12.13	(478,261)	3.13
October 1, 2023	<u>3,181,512</u>	\$ 3.24		
Balance on March 31, 2024			<u>4,409,744</u>	\$ 3.13

Performance-based Restricted Stock Units

The Compensation Committee has awarded PSUs to select employees. The PSUs granted under the 2021 Plan represent shares of Common Stock that are potentially issuable in the future based on a combination of performance and service requirements. On March 8, 2023, 4, 2024, the Company granted 949,412 340,895 PSUs under the 2021 Plan to key employees with a grant date fair value of \$1.98 \$4.22 and on May 8, 2023, March 18, 2024, the Company granted an additional 8,050 26,020 PSUs with a grant date fair value of \$2.43 \$4.25. The PSUs granted to employees were based on salary and include annual net sales and adjusted EBITDA growth targets with threshold and stretch goals. The awards vest ratably over three years, subject to the employee's continuous employment through the vesting date and the level of performance achieved. The number of PSUs granted reflects the target number able to be earned under a given award. Non-vested PSU compensation expense is based on the most recent performance assumption available and is adjusted as assumptions change. The fair value of a PSU at the grant date is equal to the market price of Common Stock on the grant date. The cost estimates for PSU grants represent initial target awards until the Company can reasonably forecast the financial performance of each PSU award grant. The actual number of shares of Common Stock to be issued at the end of each performance period will range from 0% to 150% of the initial target awards.

On June 6, 2023, the Company granted 1,520,000 PSUs to its new President and Chief Executive Officer as an employment inducement award, which are potentially issuable in the future based on a combination of achievement of certain stock price metrics and service requirements through the expiration date of December 31, 2030. The fair value of this award is determined using a Monte Carlo simulation as of the date of the grant and share-based compensation expense will not be adjusted should the target awards vary from actual awards. The Company's estimates of fair value may be impacted by certain variables including, but not limited to, stock price volatility, the risk-free interest rate, expected dividend yields, and the Company's performance.

As of October 1, 2023, there was \$3,081 of unrecognized compensation cost related to unvested PSUs that is expected to be recognized over a remaining weighted average period of 2.5 years. The fair value of PSUs vested and converted to shares of Common Stock was \$2,199 for the 39-week period ended October 1, 2023.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

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Stock Options

Stock option grants have an exercise price at least equal to the market value of the underlying Common Stock on the date of grant, have ten-year terms, and vest ratably over three years of continued employment. In general, vested options expire if not exercised within 90 days of termination of service. Compensation expense for stock options is recorded based on straight-line amortization of the grant date fair value over the requisite service period. As of October 1, 2023 March 31, 2024, there was \$1,295 \$364 of unrecognized compensation cost related to unvested stock options that is expected to be recognized over a remaining weighted-average period of 1.1 0.8 years.

The following table summarizes stock option activity for the 39-week period ended October 1, 2023:

	Number of Stock Options	Exercise Price	Weighted Average	
			Remaining	
			Contractual	Term (years)
Options outstanding on December 31, 2022	1,709,690	\$ 10.97		
Forfeited	(592,588)		11.11	
Expired	(194,874)		10.50	
Options outstanding on October 1, 2023	<u>922,228</u>	\$ 10.98		8.05
Options exercisable on, October 1, 2023	512,370	\$ 10.79		7.96

Profit Interest Units

The Holley Stockholder authorized an incentive pool of 41,400,000 units of Holley Stockholder that its management had the right to grant to certain employees of the Company. The units, which are designated as Profit Interest Units ("PIUs"), are a special type of limited liability company equity unit that allows the recipient to potentially participate in a future increase in the value of the Company. The PIUs were issued for no consideration and generally provided for vesting over a requisite service period, subject to the recipient remaining an employee of the Company through each vesting date.

In the fourth quarter of 2022, the Holley Stockholder amended the vesting criteria to allow for immediate vesting of all outstanding and unvested PIUs. The changes to these awards were deemed to be modification events under ASC Subtopic 718-10, Stock Compensation. Accordingly, during the fourth quarter of 2022, the Company recognized

catch-up equity-based compensation expense, including incremental fair value resulting from the modification, as applicable to each award grant. At that time all PIUs were fully vested with no remaining unrecognized compensation cost, and there are no remaining PIUs authorized for issuance.

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(in thousands, except share data)
(unaudited)

The following table summarizes stock option activity for the 13-week period ended March 31, 2024:

	Number of Stock Options	Weighted		Weighted Average
		Exercise Price	Average	Remaining
				Contractual Term (years)
Options outstanding on December 31, 2023	886,046	\$ 10.97		
Forfeited	(134,066)		11.03	
Expired	(50,131)		10.76	
Options outstanding on March 31, 2024	<u>701,849</u>	\$ 10.98		4.95
Options exercisable on March 31, 2024	535,805	\$ 11.00		4.12

16.14. LEASE COMMITMENTS

On January 1, 2022, the Company adopted ASC Topic 842, Leases, using the modified retrospective optional transition method provided by ASU 2018-11, Leases (Topic 842). The effect of applying this guidance resulted in an increase in noncurrent assets for right-of-use assets of \$33,887 and an increase in liabilities for associated lease obligations of \$34,579, most of which were classified as noncurrent. The adoption of the standard did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

Under the transition option elected by the Company, ASC Topic 842 is applied only to the most current period and reporting for comparative periods presented in the financial statements continues to be in accordance with ASC Topic 840, Leases, including disclosures. Upon adoption, the Company elected the following practical expedients related to ASC Topic 842:

- not reassess whether any expired or existing contracts are or contain leases, not reassess the lease classification for any expired or existing leases, and not reassess initial direct costs for any existing leases;
- to account for the lease and non-lease components as a single lease component for all of the Company's leases; and
- to apply accounting similar to ASC Topic 840 to leases that meet the definition of short-term leases.

The Company leases retail stores, manufacturing, distribution, engineering, and research and development facilities, office space, equipment, and automobiles under operating lease agreements. Leases have remaining lease terms of one to 11 years, inclusive of renewal options that the Company is reasonably certain to exercise.

The following table summarizes operating lease assets and obligations, and provides information associated with the measurement of operating lease obligations.

	As of		As of	
	October 1, 2023	December 31, 2022	March	December
			31, 2024	31, 2023
Assets:				
Operating right of use assets	\$ 30,415	\$ 29,522	\$ 28,481	\$ 29,250
Liabilities:				
Current operating lease liabilities - Accrued liabilities	\$ 5,231	\$ 5,112	\$ 4,476	\$ 4,948
Long-term operating lease liabilities	26,006	24,992	25,266	25,177
Total lease liabilities	<u>\$ 31,237</u>	<u>\$ 30,104</u>	<u>\$ 29,742</u>	<u>\$ 30,125</u>
Lease term and discount rate				
Weighted average remaining lease term (in years)	7.6	7.9	7.2	7.2
Weighted average discount rate	5.91 %	5.77 %	6.35 %	6.21 %

The following summarizes the components of operating lease expense and provides supplemental cash flow information for operating leases:

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023		October 2, 2022		March 31, 2024	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	April 2, 2023	
Components of lease expense:						
Operating lease expense	\$ 1,630	\$ 1,753	\$ 4,923	\$ 5,654	\$ 2,145	\$ 1,586
Short-term lease expense	521	599	1,499	1,849	428	512
Variable lease expense	88	195	257	609	80	152
Total lease expense	\$ 2,239	\$ 2,547	\$ 6,679	\$ 8,112	\$ 2,653	\$ 2,250
Supplemental cash flow information related to leases:						
Cash paid for amounts included in measurement of operating lease liabilities	\$ 1,732	\$ 1,843	\$ 5,203	\$ 5,424	\$ 1,849	\$ 1,751
Right-of-use assets obtained in exchange for new operating lease liabilities	2,370	—	4,724	13,769	2,014	—
Decapitalization of right-of-use assets upon lease termination or modification	353	—	507	12,178	1,360	—

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(in thousands, except share data)
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The following table summarizes the maturities of the Company's operating lease liabilities as of **October 1, 2023** **March 31, 2024**:

2023 (excluding the thirty-nine weeks ended October 1, 2023)	\$ 1,802	
2024	6,570	
2024 (excluding the thirteen weeks ended March 31, 2024)		\$ 4,857
2025	5,122	5,289
2026	4,632	4,814
2027	4,629	4,807
2028		4,568
Thereafter	16,338	12,896
Total lease payments	39,093	37,231
Less imputed interest	(7,856)	(7,489)
Present value of lease liabilities	\$ 31,237	\$ 29,742

17. ACQUISITION AND RESTRUCTURING COSTS

The following table summarizes the Company's total acquisition and restructuring costs:

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Acquisitions (1)	\$ —	\$ 4	\$ —	\$ 1,625
Restructuring (2)	415	1,262	2,106	1,622
Total acquisition and restructuring costs	\$ 415	\$ 1,266	\$ 2,106	\$ 3,247

(1) Includes professional fees for legal, accounting, consulting, administrative, and other professional services directly attributable to acquisitions.

(2) Includes costs incurred as part of the restructuring of operations including professional and consulting services and executive severance.

18.15. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is a party to various lawsuits and claims in the normal course of business, as well as the putative securities class action described below. While the lawsuits and claims against the Company cannot be predicted with certainty, management believes that the ultimate resolution of such matters will not have a material effect on the consolidated financial position or liquidity of the Company; however, in light of the inherent uncertainties involved in such lawsuits and claims, some of which may be beyond the Company's control, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period. The Company has established loss provision for matters in which losses are probable and can be reasonably estimated. Although management will continue to reassess the estimated liability based on future developments, an objective assessment of such claims may not always be predictive of the outcome and actual results may vary from current estimates.

A putative securities class action was filed on November 6, 2023, against the Company, Tom Tomlinson (the Company's former Director, President, and Chief Executive Officer), and Dominic Bardos (the Company's former Chief Financial Officer) in the United States District Court for the Western District of Kentucky (the "Complaint"). The complaint, which is captioned City of Fort Lauderdale General Employees' Retirement System v. Holley, Inc., f/k/a Empower LTD., Tom Tomlinson, and Dominic Bardos, Civil Action No.1:23-cv-148-GNS-S.

On February 26, 2024, the court appointed City of Fort Lauderdale General Employees' Retirement System to serve as lead plaintiff to prosecute claims on behalf of a proposed class of stockholders who purchased or otherwise acquired Holley securities between July 21, 2021 and February 6, 2023. On April 26, 2024, lead plaintiff filed an amended complaint, adding Vinod Nimmagadda (the Company's Executive Vice President of Corporate Development and New Ventures) as a defendant. Lead plaintiff alleges that statements made regarding the Company's business, operations, and prospects violated various securities laws Sections 10(b), Section 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934 and seeks class certification, damages, interest, attorneys' fees, and other relief. The Company's response to the amended complaint is due by June 28, 2024.

Due to the early stage of this proceeding, we cannot reasonably estimate the potential range of loss, if any. The Company disputes the allegations and intends to vigorously defend against them.

HOLLEY INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

(unaudited)

Product Warranties

The Company generally warrants its products against certain manufacturing and other defects. These product warranties are provided for specific periods of time depending on the nature of the product. The accrued product warranty costs are based primarily on historical experience of actual warranty claims and are recorded at the time of the sale.

The following table provides the changes in the Company's accrual for product warranties, which is classified as a component of accrued liabilities in the condensed consolidated balance sheets.

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	March 31, 2024	April 2, 2023
Beginning balance	\$ 3,876	\$ 2,325	\$ 3,584	\$ 3,994	\$ 3,325	\$ 3,584
Accrued for current year warranty claims	3,005	6,535	9,472	9,569	3,343	2,954
Settlement of warranty claims	(2,857)	(5,216)	(9,032)	(9,919)	(1,897)	(3,357)
Ending balance	\$ 4,024	\$ 3,644	\$ 4,024	\$ 3,644	\$ 4,771	\$ 3,181

Employee Savings Plans

The Company has a defined-contribution savings plan under Section 401(k) of the Internal Revenue Code that covers United States-based employees. United States-based eligible employees may contribute up to the current statutory limits under the Internal Revenue Service regulations. Holley matches employee contributions to the 401(k) Plan up to 3.5% each pay period, and an additional discretionary match of up to 1.5% is made based on company performance targets. The Company also has defined-contribution saving plan for Canada-based employees. Canada-based eligible employees may contribute up to the current statutory limits for a Registered Retirement Savings Plan. Holley matches employee contributions to the Group Savings Plan up to 3.0% each pay period, and an additional discretionary match of up to 1.5% is made based on company performance targets.

During the 13-week periods ended March 31, 2024 and April 2, 2023, the Company made matching contributions under the savings plans totaling \$616 and \$575, respectively.

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

Unless the context requires otherwise, references to "Holley," "we," "us," "our" and "the Company" in this section are to the business and operations of Holley Inc. and its subsidiaries unless the context otherwise indicates. The following discussion and analysis should be read in conjunction with Holley's condensed consolidated financial statements and related notes thereto included in this Quarterly Report on Form 10-Q. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause Holley's actual results to differ materially from management's expectations. Factors that could cause such differences are discussed herein and under the caption, "Cautionary Note Regarding Forward-Looking Statements."

Overview

We are a leading designer, marketer, and manufacturer of high performance automotive aftermarket products serving car and truck enthusiasts, with sales, processing, and distribution facilities reaching most major markets in the United States, Canada, Europe and China. We design, market, manufacture and distribute a diversified line of performance automotive products including fuel injection systems, tuners, exhaust products, carburetors, safety equipment and various other performance automotive products. Our products are designed to enhance street, off-road, recreational and competitive vehicle performance and safety.

Innovation is at the core of our business and growth strategy. We have a history of developing innovative products, including new products in existing product families, product line expansions, and accessories, as well as products that bring us into new categories. We have thoughtfully expanded our product portfolio over time to adapt to consumer needs.

In addition, we have historically used strategic acquisitions to (i) expand our brand portfolio, (ii) enter new product categories and consumer segments, (iii) increase direct-to-consumer scale and connection, (iv) expand share in current product categories and (v) realize value-enhancing revenue and cost synergies. While we believe our business is positioned for continued organic growth, we intend to continue evaluating opportunities for strategic acquisitions that would complement our current business and expand our addressable target market.

Factors Affecting our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us but also pose risks and challenges, including those discussed above, under the caption, "Cautionary Note Regarding Forward-Looking Statements," in this Quarterly Report on Form 10-Q, under the caption, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2022, December 31, 2023, as filed with the SEC on March 15, 2023 March 14, 2024, and in our subsequent filings with the SEC.

Business Environment

Our business and results of operations, financial condition, and liquidity are impacted by broad economic conditions, including inflation, labor shortages, and disruption of the supply chain, as well as by geopolitical events, including the conflict in Ukraine, and the conflict in Israel the Middle East, and surrounding areas. the possible expansion of such conflicts and potential geopolitical consequences. Our operations have been adversely impacted, and may continue to be adversely business is impacted by inflationary pressures primarily related various economic factors that affect both consumers and the automotive industry, including by not limited to transportation, labor and component costs. Sales growth in certain products has been constrained by continuing inflation, fuel costs, wage rates, supply chain challenges disruptions, hiring, and automotive electronic component shortages. other economic conditions. In response to the global inflationary impacts and supply chain volatility and inflationary impacts, disruptions, we have attempted to minimize potential adverse impacts on our business with cost savings initiatives, price increases to customers, and by increasing increased attention to maintaining appropriate inventory levels of certain products and working closely with our suppliers and customers to minimize disruptions in delivering products to customers. the distribution channel. Our profitability has been, and may continue to be, adversely affected by constrained consumer demand, a shift in sales mix to lower-margin products, and demands on our performance that increased increase our costs. Should the ongoing macroeconomic conditions not improve, or worsen, or if our attempts attempt to mitigate the impact on our supply chain, operations and costs is not successful, our business, results of operations and financial condition may be adversely affected.

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Key Components of Results of Operations

Net Sales

The principal activity from which we generate sales is the designing, marketing, manufacturing and distribution of performance after-market automotive parts for our end consumers. Sales are displayed net of rebates and sales returns allowances. Sales returns are recorded as a charge against gross sales in the period in which the related sales are recognized.

Cost of Goods Sold

Cost of goods sold consists primarily of the cost of purchased parts and manufactured products, including materials and direct labor costs. In addition, warranty, incoming shipping and handling and inspection and repair costs are also included within costs of goods sold. Reductions in the cost of inventory to its net realizable value are also a component of cost of goods sold.

Selling, General, and Administrative

Selling, general, and administrative costs consist of payroll and related personnel expenses, IT and office services, office rent expense and professional services. In addition, self-insurance, advertising, research and development, outgoing shipping costs, pre-production and start-up costs are also included within selling, general, and administrative.

Acquisition and Restructuring Costs

Acquisition and restructuring costs consist of professional fees for legal, accounting, consulting, administrative, and other professional services directly attributable to potential acquisitions. In addition, operational restructuring costs and integration activities, including professional and consulting services; termination related benefits; facilities relocation; and executive severance are included within this classification. transition costs.

Interest Expense

Interest expense consists of interest due on the indebtedness under our credit facilities. Interest is based on SOFR or the base rate, at the Company's election, plus the applicable margin rate. As of **October 1, 2023** **March 31, 2024**, **\$619.2 million** **\$575.9 million** was outstanding under our Credit Agreement.

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Results of Operations

13-Week Period Ended October 1, 2023 March 31, 2024 Compared With 13-Week Period Ended October 2, 2022 April 2, 2023

The table below presents Holley's results of operations for the 13-week periods ended **October 1, 2023** **March 31, 2024** and **October 2, 2022** **April 2, 2023** (dollars in thousands):

	For the thirteen weeks ended				For the thirteen weeks ended			
	October 1, 2023	October 2, 2022	Change (\$)	Change (%)	March 31, 2024	April 2, 2023	Change (\$)	Change (%)
Net sales	\$ 156,530	\$ 154,775	\$ 1,755	1.1%	\$ 158,636	\$ 172,205	\$ (13,569)	(7.9)%
Cost of goods sold	98,156	106,383	(8,227)	(7.7)%	106,577	104,492	2,085	2.0%
Gross profit	58,374	48,392	9,982	20.6%	52,059	67,713	(15,654)	(23.1)%
Selling, general, and administrative	28,880	31,921	(3,041)	(9.5)%	32,996	30,017	2,979	9.9%
Research and development costs	6,100	6,039	61	1.0%	4,812	6,653	(1,841)	(27.7)%
Amortization of intangible assets	3,687	3,662	25	0.7%	3,436	3,679	(243)	(6.6)%
Impairment of indefinite-lived intangible assets	—	2,395	(2,395)	(100.0)%				
Acquisition and restructuring costs	415	1,266	(851)	(67.2)%				
Other expense	(28)	47	(75)	(159.6)%				
Restructuring costs					615	1,339	(724)	(54.1)%
Other operating expense					(8)	51	(59)	n/a
Operating income	19,320	3,062	16,258	531.0%	10,208	25,974	(15,766)	(60.7)%
Change in fair value of warrant liability	2,064	(30,171)	32,235	(106.8)%	(3,127)	1,435	(4,562)	n/a
Change in fair value of earn-out liability	700	(7,429)	8,129	(109.4)%	(649)	428	(1,077)	n/a
Loss on early extinguishment of debt					141	—	141	n/a
Interest expense	13,712	10,428	3,284	31.5%	11,004	18,298	(7,294)	(39.9)%
Income before income taxes	2,844	30,234	(27,390)	(90.6)%	2,839	5,813	(2,974)	(51.2)%
Income tax expense (benefit)	2,092	(1,345)	3,437	(255.5)%	(891)	1,566	(2,457)	(156.9)%
Net income	752	31,579	(30,827)	(97.6)%	3,730	4,247	(517)	(12.2)%
Foreign currency translation adjustment	(176)	516	(692)	(134.1)%	(186)	(199)	13	(6.5)%
Total comprehensive income	\$ 576	\$ 32,095	\$ (31,519)	(98.2)%	\$ 3,544	\$ 4,048	\$ (504)	(12.5)%

Net Sales

Net sales for the 13-week period ended **October 1, 2023** increased **\$1.8 million** **March 31, 2024** decreased **\$13.6 million**, or **1.1% 7.9%**, to **\$156.5 million** **\$158.6 million**, as compared to **\$154.8 million** **\$172.2 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**. Improved price realization of approximately **\$2.4 million** led the increase, offset partially by **lower unit sales volume** which resulted in a decrease of approximately **\$0.6 million** **\$16.7 million**, offset partially by improved price realization of approximately **\$3.1 million** compared to the prior year period. Major categories driving the comparable year-over-year results include an increase a decrease in mechanical systems sales of **\$4.9 million** (11.4% category decline), a decrease in electronic systems sales of **\$7.9 million** (12.7% category growth), a decrease in safety products sales of **\$3.1 million** (19.8% **\$4.9 million** (7.1% category decline), and a decrease decrease in accessories sales of **\$2.8 million** (11.3% **\$4.1 million** (14.9% category decline).

Cost of Goods Sold

Cost of goods sold for the 13-week period ended **October 1, 2023** decreased **\$8.2 million** **March 31, 2024** increased **\$2.1 million**, or **7.7% 2.0%**, to **\$98.2 million** **\$106.6 million**, as compared to **\$106.4 million** **\$104.5 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**. The **decrease increase** in cost of goods sold **during the 13-week in 2024**, a period ended **October 1, 2023** in which product sales **increased 1.1%** reflects **decreased 7.9%**, was impacted by **\$9.1 million** of product rationalization initiatives that are part of a **higher gross profit margin due to decreased portfolio transformation** aimed at eliminating unprofitable or slow-moving stock keeping units ("SKUs"). Lower freight costs **lower warranty costs and product mix** partially offset the impact of these charges.

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Gross Profit and Gross Margin

Gross profit for the 13-week period ended **October 1, 2023** increased **\$10.0 million** **March 31, 2024** decreased **\$15.7 million**, or **20.6% 23.1%**, to **\$58.4 million** **\$52.1 million**, as compared to **\$48.4 million** **\$67.7 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**. Gross margin for the 13-week period ended **October 1, 2023** of **37.3%** increased **March 31, 2024** was **32.8%** as compared to a gross margin of **31.3% 39.3%** for the 13-week period ended **October 2, 2022** **April 2, 2023**. The increase in gross profit and gross Gross profit margin declined primarily due to inventory charges driven by product rationalization initiatives, which was driven partially offset by primarily by higher sales volume and meaningful improvements in freight costs. After adjusting for the **\$9.1 million** of product rationalization and **\$0.6 million** in other inventory charges, Adjusted Gross Margin for the quarter was 38.9% for the 13-week period ended March 31, 2024 compared to 39.3% for the 13-week period ended April 2, 2023. Gross profit was also negatively affected by lower warranty costs, and product mix sales volume.

Selling, General and Administrative

Selling, general and administrative costs for the 13-week period ended **October 1, 2023** decreased **March 31, 2024** increased **\$3.0 million**, or **9.5% 9.9%**, to **\$28.9 million** **\$33.0 million**, as compared to **\$31.9 million** **\$30.0 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**. When Selling, general and administrative costs expressed as a percentage of sales selling, general and administrative costs decreased increased to **18.5% of sales 20.8%** for the 13-week period ended **October 1, 2023** **March 31, 2024** compared to **20.6% of sales 17.4%** for the 13-week period ended **October 2, 2022** **April 2, 2023**. The **decrease increase** in selling, general and administrative costs was driven by **\$0.7 million increase in equity compensation**, a **\$2 million reserve related to litigation settlements**, and certain costs incurred for advisory services related to identifying performance initiatives. These increases were partially offset by lower outbound shipping and handling costs, reflecting the implementation of cost-saving initiatives. costs.

Research and Development Costs

Research and development costs for the 13-week period ended **October 1, 2023** were stable at **\$6.1 million** **March 31, 2024** decreased to **\$4.8 million** as compared to **\$6.0 million** **\$6.7 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**, primarily due to headcount reductions, reflecting the implementation of cost-saving initiatives.

Amortization and Impairment of Intangible Assets

Amortization of intangible assets was **stable at \$3.4 million** for the 13-week period ended **March 31, 2024** compared to **\$3.7 million** for **both the 13-week periods** period ended **October 1, 2023** and **October 2, 2022** **April 2, 2023**.

Acquisition and Restructuring Costs

Acquisition and restructuring **Restructuring** costs for the 13-week period ended **October 1, 2023** **March 31, 2024** decreased **\$0.9 million** by **\$0.7 million** to **\$0.4 million** **\$0.6 million**, as compared to **\$1.3 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**, reflecting a reduction in restructuring and integration activities associated with acquisitions.

Operating Income

As a result of factors described above, operating income for the 13-week period ended **October 1, 2023** increased **\$16.3 million** **March 31, 2024** decreased **\$15.8 million**, or **531.0% 60.7%**, to **\$19.3 million** **\$10.2 million**, as compared to **\$3.1 million** **\$26.0 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**.

Change in Fair Value of Warrant Liability

For the 13-week period ended **October 1, 2023** **March 31, 2024**, we recognized a **loss** gain of **\$2.1 million** **\$3.1 million** from the change in fair value of the warrant liability. For the 13-week period ended **October 2, 2022** **April 2, 2023**, we recognized a **gain** loss of **\$30.2 million** **\$1.4 million** from the change in fair value of the warrant liability. The warrant liability reflects the fair value of the Warrants issued in connection with the Business Combination.

Change in Fair Value of Earn-Out Liability

For the 13-week period ended **October 1, 2023** **March 31, 2024**, we recognized a **loss** gain of **\$0.7 million** from the change in fair value of the earn-out liability. For the 13-week period ended **October 2, 2022** **April 2, 2023**, we recognized a **gain** loss of **\$7.4 million** **\$0.4 million**, from the change in fair value of the earn-out liability. The earn-out liability reflects the fair value of the unvested Earn-Out Shares resulting from the Business Combination.

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Interest Expense

Interest expense for the 13-week period ended **October 1, 2023** increased **\$3.3 million** **March 31, 2024** decreased **\$7.3 million**, or **31.5%** **39.9%**, to **\$13.7 million** **\$11.0 million**, as compared to **\$10.4 million** **\$18.3 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**, reflecting lower outstanding debt balances and the positive impact of the interest rate collar, offset in part by a higher effective interest rate on outstanding debt, net of a **\$1.1 million** fair value adjustment on the interest rate collar debt.

Income before Income Taxes

As a result of factors described above, we recognized **\$2.8 million** of income before income taxes for the 13-week period ended **October 1, 2023** **March 31, 2024**, as compared to income before income taxes of **\$30.2 million** **\$5.8 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**.

Income Tax Expense (Benefit)

Income tax **expense** **benefit** for the 13-week period ended **October 1, 2023** **March 31, 2024** was **\$2.1 million** **\$0.9 million**, as compared to an **income tax** **benefit** **expense** of **\$1.3 million** **\$1.6 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**. Our effective tax rate for the 13-week period ended **October 1, 2023** **March 31, 2024** was **73.6%** **-31.4%**. The difference between the effective tax rate for the 13-week period ended **October 1, 2023** **March 31, 2024** and the federal statutory rate in **2023** **2024** was due to permanent differences resulting from the change related to changes in fair value of the warrant and earn-out liabilities recognized during the period, federal research and development tax credits, and the impact of foreign taxes in higher tax rate jurisdictions. In addition, the company incurred expenses related to product rationalization that were determined to be significant and infrequent in nature, therefore, the full tax benefit of these expenses was recorded during first quarter 2024 as a discrete adjustment. The effective tax rate for the 13-week period ended **October 2, 2022** **April 2, 2023** was **-4.4%** **26.9%**. The difference between the effective tax rate and the federal statutory rate in **2022** **2023** was primarily due to permanent differences resulting from the change in fair value of the warrant and earn-out liabilities.

Net Income and Total Comprehensive Income

As a result of factors described above, we recognized net income of **\$0.8 million** **\$3.7 million** for the 13-week period ended **October 1, 2023** **March 31, 2024**, as compared to net income of **\$31.6 million** **\$4.3 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**. Additionally, we recognized total comprehensive income of **\$0.6 million** **\$3.5 million** for the 13-week period ended **October 1, 2023** **March 31, 2024**, as compared to total comprehensive income of **\$32.1 million** **\$4.1 million** for the 13-week period ended **October 2, 2022** **April 2, 2023**. Comprehensive income includes the effect of foreign currency translation adjustments.

39-Week Period Ended October 1, 2023 Compared With 39-Week Period Ended October 2, 2022

The table below presents Holley's results of operations for the 39-week periods ended October 1, 2023 and October 2, 2022 (dollars in thousands):

	For the thirty-nine weeks ended			
	October 1, 2023	October 2, 2022	Change (\$)	Change (%)
Net sales	\$ 503,997	\$ 534,250	\$ (30,253)	(5.7)
Cost of goods sold	308,162	327,849	(19,687)	(6.0)
Gross profit	195,835	206,401	(10,566)	(5.1)
Selling, general, and administrative	87,998	102,532	(14,534)	(14.2)
Research and development costs	18,935	22,396	(3,461)	(15.5)

Amortization of intangible assets	11,040	10,985	55	0.5 %
Impairment of indefinite-lived intangible assets	—	2,395	(2,395)	(100.0)
Acquisition and restructuring costs	2,106	3,247	(1,141)	(35.1)
Other expense	508	594	(86)	(14.5)
Operating income	75,248	64,252	10,996	17.1 %
Change in fair value of warrant liability	5,516	(51,112)	56,628	(110.8)
Change in fair value of earn-out liability	2,089	(9,282)	11,371	(122.5)
Interest expense	41,909	26,780	15,129	56.5 %
Income before income taxes	25,734	97,866	(72,132)	(73.7)
Income tax expense	7,756	8,866	(1,110)	(12.5)
Net income	17,978	89,000	(71,022)	(79.8)
Foreign currency translation adjustment	(103)	1,258	(1,361)	(108.2)
Total comprehensive income	\$ 17,875	\$ 90,258	\$ (72,383)	(80.2)

Net Sales

Net sales for the 39-week period ended October 1, 2023 decreased \$30.3 million, or 5.7%, to \$504.0 million, as compared to \$534.3 million for the 39-week period ended October 2, 2022. The decline in sales was driven by supply chain constraints in electronic components and a return to the sales trends experienced prior to the increased demand experienced during the COVID-19 pandemic. As a result, lower unit volume drove a decrease of approximately \$43.2 million that was partially offset by improved price realization of approximately \$12.9 million compared to the prior year period. Comparable year-over-year results by category include a decrease in safety products sales of \$7.8 million (14.7% category decline), a decrease in electronic systems sales of \$6.2 million (2.8% category decline), a decrease in accessories sales of \$6.0 million (7.4% category decline), a decrease in mechanical systems sales of \$5.3 million (4.1% category decline), and a decrease in exhaust system sales of \$5.0 million (9.5% category decline).

Cost of Goods Sold

Cost of goods sold for the 39-week period ended October 1, 2023 decreased \$19.7 million, or 6.0%, to \$308.2 million, as compared to \$327.8 million for the 39-week period ended October 2, 2022. The decrease in cost of goods sold during the 39-week period ended October 1, 2023 reflects the decrease in product sales during such period combined with lower freight costs.

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Gross Profit and Gross Margin

Gross profit for the 39-week period ended October 1, 2023 decreased \$10.6 million, or 5.1%, to \$195.8 million, as compared to \$206.4 million for the 39-week period ended October 2, 2022. Gross margin for the 39-week period ended October 1, 2023 was 38.9% as compared to a gross margin of 38.6% for the 39-week period ended October 2, 2022. The decrease in gross profit was driven primarily by lower sales. In general, gross margin and margins on individual products remain under pressure due to various factors, including potential increases in manufacturing costs and shifts in sales mix towards products with lower gross margins.

Selling, General and Administrative

Selling, general and administrative costs for the 39-week period ended October 1, 2023 decreased \$14.5 million, or 14.2%, to \$88.0 million, as compared to \$102.5 million for the 39-week period ended October 2, 2022. When expressed as a percentage of sales, selling, general and administrative costs decreased to 17.5% of sales for the 39-week period ended October 1, 2023 compared to 19.2% of sales in 2022. The decrease in selling, general and administrative costs was driven by lower equity compensation costs and the implementation of cost-saving initiatives, which resulted in decreases in personnel, outbound shipping and handling, and marketing costs.

Research and Development Costs

Research and development costs for the 39-week period ended October 1, 2023 decreased \$3.5 million, or 15.5%, to \$18.9 million, as compared to \$22.4 million for the 39-week period ended October 2, 2022. The decrease in research and development costs was primarily due to headcount reductions, reflecting the implementation of cost-saving initiatives.

Amortization and Impairment of Intangible Assets

Amortization of intangible assets was stable at \$11.0 million for both the 39-week periods ended October 1, 2023 and October 2, 2022.

Acquisition and Restructuring Costs

Acquisition and restructuring costs for the 39-week period ended October 1, 2023 decreased \$1.1 million to \$2.1 million, as compared to \$3.3 million for the 39-week period ended October 2, 2022, reflecting a reduction in restructuring activities associated with acquisitions.

Operating Income

As a result of factors described above, operating income for the 39-week period ended October 1, 2023 increased \$11.0 million, or 17.1%, to \$75.3 million, as compared to \$64.3 million for the 39-week period ended October 2, 2022.

Change in Fair Value of Warrant Liability

For the 39-week period ended October 1, 2023 we recognized a loss of \$5.5 million from the change in fair value of the warrant liability. For the 39-week period ended October 2, 2022 we recognized a gain of \$51.1 million from the change in fair value of the warrant liability. The warrant liability reflects the fair value of the Warrants issued in connection with the Business Combination.

Change in Fair Value of Earn-Out Liability

For the 39-week period ended October 1, 2023 we recognized a loss of \$2.1 million from the change in fair value of the earn-out liability. For the 39-week period ended October 2, 2022 we recognized a gain of \$9.3 million from the change in fair value of earn-out liability. The earn-out liability reflects the fair value of the unvested Earn-Out Shares resulting from the Business Combination.

Interest Expense

Interest expense for the 39-week period ended October 1, 2023 increased \$15.1 million, or 56.5%, to \$41.9 million, as compared to \$26.8 million for the 39-week period ended October 2, 2022, reflecting a higher effective interest rate on outstanding debt, net of a \$3.2 million fair value adjustment on the interest rate collar.

Income before Income Taxes

As a result of factors described above, we recognized \$25.7 million of income before income taxes for the 39-week period ended October 1, 2023, as compared to income before income taxes of \$97.9 million for the 39-week period ended October 2, 2022.

Income Tax Expense

Income tax expense for the 39-week period ended October 1, 2023 was \$7.8 million, as compared to income tax expense of \$8.9 million for the 39-week period ended October 2, 2022. The effective tax rate for the 39-week period ended October 1, 2023 was 30.1%. The difference between the effective tax rate for the 39-week period ended October 1, 2023 and the federal statutory rate in 2023 was primarily due to permanent differences resulting from the change in fair value of the warrant and earn-out liabilities. Our effective tax rate for the 39-week period ended October 2, 2022 was 9.1%. The difference between the effective tax rate and the federal statutory rate in 2022 was primarily due to permanent differences resulting from the change in fair value of the warrant and earn-out liabilities.

Net Income and Total Comprehensive Income

As a result of factors described above, we recognized net income of \$18.0 million for the 39-week period ended October 1, 2023, as compared to net income of \$89.0 million for the 39-week period ended October 2, 2022. Additionally, we recognized total comprehensive income of \$17.9 million for the 39-week period ended October 1, 2023, as compared to total comprehensive income of \$90.3 million for the 39-week period ended October 2, 2022. Comprehensive income includes the effect of foreign currency translation adjustments.

Non-GAAP Financial Measures

We present certain information with respect to EBITDA, and Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Gross Profit, Adjusted Gross Margin, Adjusted Net Income, Adjusted Diluted EPS, and Free Cash Flow as supplemental measures of our operating performance and believe that such non-GAAP financial measures provide are useful information to investors in evaluating our financial performance and in comparing our financial results between periods because they exclude the impact of certain items that we do not consider indicative of our ongoing operating performance and we believe are useful in comparing the Company's results of operations between periods. We believe that the presentation of EBITDA and Adjusted EBITDA these non-GAAP financial measures enhances the usefulness of our financial information by presenting measures that management uses internally to establish forecasts, budgets and operational goals to manage and monitor our business. We believe that these non-GAAP financial measures help to depict a more realistic representation of the performance of our underlying business, enabling us to evaluate and plan more effectively for the future.

We define EBITDA as earnings before depreciation, amortization of intangible assets, interest expense, and income tax expense. We define Adjusted EBITDA as EBITDA adjusted to exclude, to the extent applicable, acquisition and restructuring costs, which includes transaction fees and expenses, termination related benefits, facilities relocation, and executive transition costs; changes in the fair value of the warrant liability; changes in the fair value of the earn-out liability; equity-based compensation expense; impairment of intangible assets; non-cash charges due to our previously disclosed product rationalization initiative aimed at eliminating unprofitable or slow-moving stock keeping units, for which a partial reversal of the initial reserve was recognized during the 39-week period ended October 1, 2023; notable items that we do not believe are reflective of operating performance, which for the 39-week period ended October 1, 2023, includes certain costs incurred for advisory services related to identifying performance initiatives, and for the 39-week period ended October 2, 2022, includes a non-cash adjustment related to the adoption of ASC Topic 842, "Leases," and legal fees and costs related to a settlement; and other expenses or gains, which includes gains or losses from disposal of fixed assets, franchise taxes, and gains or losses from foreign currency transactions.

EBITDA, and Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Gross Profit, Adjusted Gross Margin, Adjusted Net Income, Adjusted Diluted EPS, and Free Cash Flow are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. These measures should not be considered as measures of financial performance under GAAP, and the items excluded from or included in these metrics are significant components in understanding and assessing Holley's financial performance. These metrics should not be considered as alternatives to net income, (loss) gross profit, net cash provided by operating activities, or any other performance measures, as applicable, derived in accordance with GAAP.

Adjusted EBITDA

We define EBITDA as earnings before depreciation, amortization of intangible assets, interest expense, and income tax expense. We define Adjusted EBITDA as EBITDA adjusted to exclude, to the extent applicable, restructuring costs, which includes operational restructuring and integration activities, termination related benefits, facilities relocation, and executive transition costs; changes in the fair value of the warrant liability; changes in the fair value of the earn-out liability; equity-based compensation expense; inventory charges primarily due to product rationalization initiatives that are part of a portfolio transformation aimed at eliminating unprofitable or slow-moving SKUs; gain or loss on the early extinguishment of debt; notable items that we do not believe are reflective of our underlying operating performance, including litigation settlements and certain costs incurred for advisory services related to identifying performance initiatives; and other expenses or gains, which includes gains or losses from disposal of fixed assets, franchise taxes, and gains or losses from foreign currency transactions. We define Adjusted EBITDA Margin as Adjusted EBITDA divided by net sales.

The following unaudited table presents the reconciliation of net income, the most directly comparable GAAP measure, to EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin for the 13-week and 39-week periods ended October 1, 2023 March 31, 2024 and October 2, 2022 April 2, 2023 (dollars in thousands):

	For the thirteen weeks ended		For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022	March 31, 2024	April 2, 2023
	\$ 752	\$ 31,579	\$ 17,978	\$ 89,000	\$ 3,730	\$ 4,247
Net income						
Adjustments:						
Depreciation	2,785	2,837	7,738	7,500	2,464	2,485
Amortization of intangible assets	3,687	3,662	11,040	10,985	3,436	3,679
Interest expense, net	13,712	10,428	41,909	26,780	11,004	18,298
Income tax expense (benefit)	2,092	(1,345)	7,756	8,866		
Income tax expense					(891)	1,566
EBITDA	23,028	47,161	86,421	143,131	19,743	30,275
Acquisition and restructuring costs	415	1,266	2,106	3,247		
Impairment of indefinite-lived intangible assets	—	2,395	—	2,395		
Change in fair value of warrant liability	2,064	(30,171)	5,516	(51,112)	(3,127)	1,435
Change in fair value of earn-out liability	700	(7,429)	2,089	(9,282)	(649)	428
Equity-based compensation expense	2,970	2,873	5,170	9,518	1,141	394
Product rationalization	—	—	(800)	—		
Inventory charges					9,713	—
Loss on early extinguishment of debt					141	—
Restructuring costs					615	1,339
Notable items	556	213	564	1,097	3,100	24
Other expense (gain)	(28)	47	508	594	(8)	51
Adjusted EBITDA	\$ 29,705	\$ 16,355	\$ 101,574	\$ 99,588	\$ 30,669	\$ 33,946
Net sales					\$ 158,636	\$ 172,205
Net income margin					2.4%	2.5%
Adjusted EBITDA Margin					19.3%	19.7%

Adjusted Gross Profit and Adjusted Gross Margin

We define adjusted gross profit as gross profit excluding inventory charges primarily due to product rationalization initiatives that are part of a portfolio transformation aimed at eliminating unprofitable or slow-moving SKUs. We define Adjusted Gross Margin as Adjusted Gross Profit divided by net sales.

The following unaudited table presents the reconciliation of gross profit, the most directly comparable GAAP measure, to Adjusted Gross Profit and Adjusted Gross Margin for the 13-week periods ended March 31, 2024 and April 2, 2023 (dollars in thousands):

	For the thirteen weeks ended	
	March 31, 2024	April 2, 2023
Gross profit	\$ 52,059	\$ 67,713
Adjust for: Inventory charges	9,713	—
Adjusted Gross Profit	\$ 61,772	\$ 67,713
Net sales	\$ 158,636	\$ 172,205
Gross margin	32.8 %	39.3
Adjusted Gross Margin	38.9 %	39.3

Adjusted Net Income and Adjusted Diluted EPS

We define Adjusted Net Income as earnings excluding the after-tax effect of changes in the fair value of the warrant liability, changes in the fair value of the earn-out liability, and gain or loss on the early extinguishment of debt. We define Adjusted Diluted EPS as Adjusted Net Income on a per share basis. Management uses these measures to focus on ongoing operations and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present consolidated operating results. We believe that using this information, along with net income and net income per diluted share, provides for a more complete analysis of the results of operations.

The following unaudited tables present the reconciliation of net income and net income per diluted share, the most directly comparable GAAP measures, to Adjusted Net Income and Adjusted Diluted EPS for the 13-week periods ended March 31, 2024 and April 2, 2023 (dollars in thousands):

	For the thirteen weeks ended	
	March 31, 2024	April 2, 2023
Net income	\$ 3,730	\$ 4,247

Special items:			
Adjust for: Change in fair value of Warrant liability		(3,127)	1,435
Adjust for: Change in fair value of earn-out liability		(649)	428
Adjust for: Loss on early extinguishment of debt		111	—
Adjusted Net Income (Loss)	\$ 65	\$ 6,110	
	For the thirteen weeks ended		
	March 31, 2024	April 2, 2023	
Net income per diluted share	\$ 0.03	\$ 0.04	
Special items:			
Adjust for: Change in fair value of Warrant liability		(0.03)	0.01
Adjust for: Change in fair value of earn-out liability		—	—
Adjust for: Loss on early extinguishment of debt		—	—
Adjusted Diluted EPS	\$ —	\$ 0.05	

We define Free Cash Flow as net cash provided by operating activities minus cash payments for capital expenditures, net of dispositions. Management believes providing Free Cash Flow is useful for investors to understand our performance and results of cash generation after making capital investments required to support ongoing business operations.

The following unaudited table presents the reconciliation of net cash provided by operating activities, the most directly comparable GAAP measure, to Free Cash Flow for the 13-week periods ended March 31, 2024 and April 2, 2023 (dollars in thousands):

			For the thirteen weeks ended
	March 31, 2024	April 2, 2023	
Net cash provided by operating activities	\$ 18,843	\$ 3,639	
Capital expenditures	(1,265)	(1,001	
Proceeds from the disposal of fixed assets	174	318	
Free Cash Flow	\$ 17,752	\$ 2,956	

Liquidity and Capital Resources

Our primary cash needs are to support working capital, capital expenditures, acquisitions, and debt repayments. We have generally financed our historical needs with operating cash flows, capital contributions and borrowings under our credit facilities. These sources of liquidity may be impacted by various factors, including demand for our products, investments made in acquired businesses, plant and equipment and other capital expenditures, and expenditures on general infrastructure and information technology.

As of **October 1, 2023** **March 31, 2024**, the Company had cash of **\$36.8 million** **\$41.1 million** and availability of \$123.3 million under its revolving credit facility. The Company has a senior secured revolving credit facility with \$125 million in borrowing capacity. As of **October 1, 2023** **March 31, 2024**, the Company had \$1.7 million in letters of credit outstanding under the revolving credit facility. In February 2023, the Company entered into an amendment to its Credit Agreement which, among other things, contains a minimum liquidity financial covenant of \$45 million, which includes unrestricted cash and any available borrowing capacity under the revolving credit facility. The amendment also increases the **consolidated net leverage ratio financial covenant level** **Total Leverage Ratio** applicable under the Credit Agreement as of the fiscal quarter ending April 2, 2023 through the fiscal quarter ending March 31, 2024, to initially 7.25:1.00, and provides for modified step-down levels for such covenant **thereafter**. **thereafter through the fiscal quarter ending March 31, 2024**.

The Company is obligated under various operating leases for facilities, equipment and automobiles with estimated lease payments of approximately **\$1.9 million** **\$5.3 million**, including short term leases, due during the remainder of fiscal year **2023** **2024**. See Note **16** **14**, "Lease Commitments" in the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for additional information related to the Company's lease obligations.

Holley's capital expenditures are primarily related to ongoing maintenance and improvements, including investments related to upgrading and maintaining our information technology systems, tooling for new products, vehicles for product development, and machinery and equipment for operations. We expect capital expenditures in the range of **\$6.8 million** to **\$8.12 million** in fiscal year **2023** **2024**.

See Note **7** **6**, "Debt" in the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further detail of our credit facility and the timing of principal maturities. As of **October 1, 2023** **March 31, 2024**, based on the then current weighted average interest rate of **9.4%** **9.2%**, expected interest payments associated with outstanding debt totaled approximately **\$14.6 million** **\$39.7 million** for the remainder of fiscal year **2023** **2024**.

As discussed under "Business Environment" above, although the future impact of supply chain disruptions and inflationary pressures are highly uncertain, we believe that cash generated through our current operating performance, and our operating plans, cash position, and borrowings available under our revolving credit facility, will be sufficient to satisfy

our liquidity needs and capital expenditure requirements for the next 12 months and thereafter for the foreseeable future.

Cash Flows

The following table provides a summary of cash flows from operating, investing, and financing activities for the periods presented (dollars in thousands):

39-week 13-week period ended October 1, 2023 March 31, 2024 Compared With 39-week 13-week period ended October 2, 2022 April 2, 2023

	For the thirty-nine weeks ended		For the thirteen weeks ended	
	October 1, 2023	October 2, 2022	March 31, 2024	April 2, 2023
	\$ 56,863	\$ 12,164	\$ 18,843	\$ 3,639
Cash flows provided by operating activities				
Cash flows used in investing activities	(3,125)	(25,349)	(1,091)	(683)
Cash flows used in financing activities	(42,998)	(5,457)	(17,669)	(8,435)
Effect of foreign currency rate fluctuations on cash	(57)	(1,077)	(37)	145
Net (decrease) increase in cash and cash equivalents	\$ 10,683	\$ (19,719)	\$ 46	\$ (5,334)

Operating Activities. Net cash provided by operating activities for the 39-week 13-week period ended October 1, 2023 March 31, 2024 was \$56.9 million \$18.8 million compared to net cash provided by operating activities of \$12.2 million \$3.6 million for the 39-week 13-week period ended October 2, 2022 April 2, 2023. Net income decreased \$71.0 million to \$18.0 million for the 39-week period ended October 1, 2023 from \$89.0 million for the 39-week period ended October 2, 2022, largely due to a \$68.0 million year-over-year impact of non-cash valuation adjustments for warrants and earn out liabilities. Significant changes in the year-over-year change in working capital activity included positive fluctuations from inventories accounts payable of \$67.4 million \$14.2 million and accounts receivable of \$7.5 million \$9.2 million. Partially offsetting these increases were negative fluctuations in accrued interest inventories of \$7.1 million and accrued liabilities of \$4.5 million \$4.2 million. The change in inventory reflects the impact of inventory management initiatives and fluctuations in sales while changes in accounts receivable payable and accrued liabilities accounts receivable are impacted by the timing of payments, payments and receipts.

Investing Activities. Cash used in investing activities for the 39-week period 13-week periods ended October 1, 2023 was \$3.1 million which primarily reflects capital expenditures. Cash used in investing activities for the 39-week period ended October 2, 2022 was \$25.4 million which included \$11.7 million March 31, 2024 and April 2, 2023 were \$1.1 million and \$0.7 million, respectively, due to capital expenditures and \$14.1 million due to acquisitions, expenditures.

Financing Activities. Cash used in financing activities for the 39-week 13-week period ended October 1, 2023 March 31, 2024 was \$43.0 million \$17.7 million, which primarily reflects \$40.4 million \$16.7 million in principal payments on long-term debt. The principal payments of long-term debt during the 39-week 13-week period ended October 1, 2023 includes March 31, 2024 include the Company's pay down repurchase of an aggregate of \$24.8 million in \$15.0 million outstanding principal on its outstanding the first lien term loan by repurchasing \$13.8 million at a discount to par and making a voluntary prepayment of \$11.0 million during the 13-week period ended October 1, 2023. par. Cash used in financing activities for the 39-week 13-week period ended October 2, 2022 April 2, 2023 was \$5.5 million \$8.4 million, which primarily due to \$31.8 million in reflects principal payments on long-term debt which was partially offset by \$27.0 million in borrowings under the delayed draw term loan to finance acquisitions, and deferred financing fees.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, sales, expenses and related disclosures. We evaluate our estimates, judgements 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. For a discussion of our critical accounting estimates, refer to the section entitled "Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2022, December 31, 2023, as filed with the SEC on March 15, 2023 March 14, 2024. For further information see also Note 1, "Description of the Business, Basis of Presentation, and Summary of Significant Accounting Policies" in the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. There have been no material changes to the Company's critical accounting estimates included in our Annual Report on Form 10-K for the year ended December 31, 2022, December 31, 2023.

Recent Accounting Pronouncements

For a discussion of Holley's new or recently adopted accounting pronouncements, see Note 1, "Description of the Business, Basis of Presentation, and Summary of Significant Accounting Policies," in the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk. Holley is exposed to market risk in the normal course of business due to the Company's ongoing investing and financing activities. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. Holley has established policies and procedures governing the Company's management of market risks and the use of financial instruments to manage exposure to such risks. When appropriate, the Company uses derivative financial instruments to mitigate the risk from its interest rate exposure. The Company's interest rate collar is intended to mitigate some of the effects of increases in interest rates. As of **October 1, 2023** **March 31, 2024**, a total of **\$619.2 million** **\$575.9 million** of term loan and revolver borrowings were subject to variable interest rates, with a weighted average borrowing rate of **9.4%** **9.2%**. A hypothetical 100 basis point increase in interest rates would result in an approximately **\$1.2 million** **\$0.8 million** increase in annual interest expense, while a hypothetical 100 basis point decrease in interest rates would result in an approximately **\$2.9 million** **\$4.0 million** decrease to Holley's annual interest expense.

Credit and other Risks. Holley is exposed to credit risk associated with cash and cash equivalents and trade receivables. As of **October 1, 2023** **March 31, 2024**, the majority of the Company's cash and cash equivalents consisted of cash balances in **non-interest bearing checking** **an overnight sweep account where funds are transferred to an interest-bearing deposit account that is insured by the Federal Deposit Insurance Corporation ("FDIC")**. The FDIC insures financial institution deposits up to \$250 thousand. Holley maintains deposits in **certain** accounts which exceed the insurance coverage provided on such deposits. The Company does not believe that its cash equivalents present significant credit risks because the counterparties to the instruments consist of major financial institutions. Substantially all trade receivable balances of the business are unsecured. The credit risk with respect to trade receivables is concentrated by the number of significant customers that the Company has in its customer base and a prolonged economic downturn could increase exposure to credit risk on the Company's trade receivables. To manage exposure to such risks, Holley performs ongoing credit evaluations of the Company's customers and maintains an allowance for potential credit losses.

Exchange Rate Sensitivity. As of **October 1, 2023** **March 31, 2024**, the Company is exposed to changes in foreign currency exchange rates. While historically this exposure to changes in foreign currency exchange rates has not had a material effect on the Company's financial condition or results of operations, foreign currency fluctuations could have a material adverse effect on business and results of operations in the future. Historically, Holley's primary exposure has been related to transactions denominated in the Euro and Canadian dollars. The majority of the Company's sales, both domestically and internationally, are denominated in U.S. Dollars. Historically, the majority of the Company's expenses have also been in U.S. Dollars and we have been somewhat insulated from currency fluctuations. However, Holley may be exposed to greater exchange rate sensitivity in the future. Currently, the Company does not hedge foreign currency exposure; however, the Company may consider strategies to mitigate foreign currency exposure in the future if deemed necessary.

Item 4. Controls and Procedures.

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of **October 1, 2023** **March 31, 2024** to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

See Litigation in Note **18** **15** "Commitments and Contingencies" to the Condensed Consolidated Financial Statements, which is incorporated by reference in this Item 1. Legal Proceedings.

Item 1A. Risk Factors

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially affect our operations. Factors that could materially affect our actual results, levels of activity, performance or achievements include, but are not limited to, those under the caption "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2022, December 31, 2023, as filed with the SEC on March 15, 2023 March 14, 2024. Such risks, uncertainties and other factors may cause our actual results, performance, and achievements to be materially different from those expressed or implied by our forward-looking statements. If any of these risks or events occur, our business, financial condition or results of operations may be adversely affected.

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 15, 2023, except for the addition of the following risk factor:

Recent events affecting the financial services industry could have an adverse impact on the Company's business operations, financial condition, and results of operations.

The closures of certain regional banks have created bank-specific and broader financial institution liquidity risk and concerns. Future adverse developments with respect to specific financial institutions or the broader financial services industry may lead to market-wide liquidity shortages, impair the ability of companies to access working capital needs, and create additional market and economic uncertainty.

Although we do not have any funds in any of the banks that have been placed into receivership to date, we cannot guarantee that the banks or other financial institutions that hold our funds will not experience similar issues. These events have resulted in market disruption and volatility and could lead to greater instability in the credit and financial markets and a deterioration in confidence in economic conditions. Our operations may be adversely affected by any such economic downturn, liquidity shortages, volatile business environments, or unpredictable market conditions. These events could also make any necessary debt or equity financing more difficult and/or costly.

The future effect of these events on the financial services industry and broader economy are unknown and difficult to predict but could include failures of other financial institutions to which we or our customers, vendors, or other counterparties face direct or more significant exposure. Any such developments could adversely impact our results of operation and financial position. There may be other risks we have not yet identified. We are working to identify any potential impact of these events on our business in order to minimize any disruptions to our operations. However, we cannot guarantee we will be able to avoid any negative consequences relating to these recent developments or any future related developments.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Trading Plans

During the fiscal quarter ended October 1, 2023 March 31, 2024, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K).

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Item 6. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of March 11, 2021, by and among Empower Ltd., Empower Merger Sub I Inc., Empower Merger Sub II LLC and Holley Intermediate Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on March 12, 2021).
3.1	Certificate of Incorporation of the Company, dated July 16, 2021 (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the SEC on July 21, 2021).
3.2	Amended and Restated By-Laws of the Company, dated August 8, 2023 (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the SEC on August 9, 2023).
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act

31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document and include in Exhibit 101)

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SIGNATURES

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 thereunto duly authorized.

Holley Inc.

/s/ Jesse Weaver

Jesse Weaver

Chief Financial Officer (Duly Authorized Officer)

November 8, 2023
2024

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Exhibit 31.1

CERTIFICATIONS

I, Matthew Stevenson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Holley 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 officer 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 our 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;

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 officer 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 control over financial reporting.

/s/ Matthew Stevenson

Matthew Stevenson

President and Chief Executive Officer

November ~~May~~ 8, 2023 2024

Exhibit 31.2

CERTIFICATIONS

I, Jesse Weaver, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Holley 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 officer 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 our 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;

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 officer 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 control over financial reporting.

/s/ Jesse Weaver

Jesse Weaver

Chief Financial Officer

November May 8, 2023 2024

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Exhibit 32.1

CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Holley Inc. (the "Company") on Form 10-Q for the period ended **October 1, 2023** **March 31, 2024**, as filed with the Securities and Exchange Commission (the "Report"), I, Matthew Stevenson, President and Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(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.

/s/ Matthew Stevenson

Matthew Stevenson

President and Chief Executive Officer

November May 8, 2023
2024

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Exhibit 32.2

CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Holley Inc. (the "Company") on Form 10-Q for the period ended **October 1, 2023** **March 31, 2024**, as filed with the Securities and Exchange Commission (the "Report"), I, Jesse Weaver, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(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.

/s/ Jesse Weaver

Jesse Weaver

Chief Financial Officer

November May 8, 2023
2024

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

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