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Â Â Table of Contents UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, DC 20549 Â FORM 10-Q Â â˜’ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Â For the quarterly period ended September 29, 2024 Â OR Â â˜ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Â For the transition period from __________to__________ Â Commission file number: 001-39599 Â HOLLEY INC. (Exact name of registrant as specified in its charter) Â Delaware 87-1727560 (State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.) Â 2445 Nashville Road, Suite B1, Bowling Green, KY 42101 (Address of principal executive offices) Â (270) 782-2900 (Registrantâ€™s telephone number, including area code) Â (Former name, former address and former fiscal year, if changed since last report) N/A Â Securities registered pursuant to Section 12(b) of the Act: Â Title of each class Â Trading symbol(s) Â Name of each exchange on which registered Common Stock, par value $0.0001 Warrants to purchase common stock Â HLLY HLLY WS Â New York Stock Exchange New York Stock Exchange Â 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.Â Â Yes â˜’ No â˜ Â 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(Â§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 â˜’ No â˜ Â 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 â€œlarge accelerated filer,â€ â€œaccelerated filer,â€ â€œsmaller reporting company,â€ and â€œemerging growth companyâ€ in Rule 12b-2 of the Exchange Act. Â Large accelerated filer Â â˜ Â Accelerated filer Â â˜’Â Â Â Â Â Â Â Non-accelerated filer Â â˜Â Smaller reporting company Â â˜Â Â Â Â Â Â Â Â Â Â Â Emerging growth company Â â˜’ Â 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. â˜ Â Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act). Yes â˜ No â˜’ Â There were 119,797,033Â shares of Common Stock, including 1,093,750Â restricted earn-out shares, par value $0.0001 per share, issued and outstanding as of November 6, 2024. Â Â Table of Contents Â Â Â TABLE OF CONTENTS Â   Â 2 Table of Contents Â Â Â CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS Â 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 "ExchangeÂ 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 Companyâ€™s business. Forward-looking statements may be accompanied by words such as â€œbelieve,â€ â€œestimate,â€ â€œexpect,â€ â€œproject,â€ â€œforecast,â€ â€œmay,â€ â€œwill,â€ â€œshould,â€ â€œseek,â€ â€œplan,â€ â€œscheduled,â€ â€œanticipate,â€ â€œintendâ€ 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 Companyâ€™s ability to do any of the following: Â Â â€¢ execute its business strategy, including monetization of services provided and expansions in and into existing and new lines of business; Â Â â€¢ anticipate and manage through disruptions and higher costs in manufacturing, supply chain, logistical operations, and shortages of certain company products in distribution channels; Â Â â€¢ 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; Â Â â€¢ respond to the impact of geopolitical events, including military conflicts (including the conflict in Ukraine, the conflict in the Middle East, the possible expansion of such conflicts and potential geopolitical consequences), theÂ interruption from catastrophic events and problems such as terrorism, and public health crises; Â Â â€¢ maintain key strategic relationships with partners and resellers; Â Â â€¢ anticipate and manage through the impact of elevatedÂ interest rate levels,Â which causeÂ the cost of capital to increase, as well as respond to inflationary pressures; Â Â â€¢ enhance future operating and financial results, whether through anticipated organic or external growth initiatives or through the implementation of cost savings initiatives; Â Â â€¢ respond to uncertainties associated with product and service development and market acceptance; Â Â â€¢ anticipate and manage through increased constraints in consumer demand and/or shifts in the mix of productsÂ sold; Â Â â€¢ attract and retain qualified employees and key personnel; Â Â â€¢ protect and enhance the Companyâ€™s corporate reputation and brand awareness; Â Â â€¢ recognition of goodwill and other intangible asset impairment charges; Â Â â€¢ effectively respond to general economic and business conditions; Â Â â€¢ acquire and protect intellectual property; Â Â â€¢ collect, store, process and use personal and payment information and other consumer data; Â Â â€¢ comply with privacy and data protection laws and other legal obligations related to privacy, information security, and data protection; Â Â â€¢ manage the impact of any security breaches, cyber-attacks, or other cybersecurity threats or incidents, or the failure of any key information technology systems; Â 3 Table of Contents Â Â â€¢ meet future liquidity requirements and comply with restrictive covenants related to long-term indebtedness; Â Â â€¢ obtain additional capital, including through the sale of equity or debt securities; Â Â â€¢ finance operations on an economically viable basis; Â Â â€¢ maintain Holleyâ€™s New York Stock Exchange (â€œNYSEâ€) listing of its common stock (â€œCommon Stockâ€) and warrants to purchase Common Stock ("Warrants"); Â Â â€¢ comply with existing and/or future laws and regulations applicable to ourÂ business, including laws and regulations related to environmental health and safety or climate-related disclosures; Â Â â€¢ respond to litigation, complaints, product liability claims and/or adverse publicity; Â Â â€¢ anticipate the significance and timing of contractual obligations; Â Â â€¢ anticipate the impact of, and response to, new accounting standards; Â Â â€¢ maintain proper and effective internal controls; Â Â â€¢ respond to the impact of changes in U.S. tax laws and regulations, including the impact on deferred tax assets; Â Â â€¢ anticipate the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (the â€œJOBS Actâ€); Â Â â€¢ anticipate the impact of changes in consumer spending patterns, consumer preferences, local, regional and national economic conditions, crime, weather, and demographic trends; and Â Â â€¢ respond to other risks and factors, listed under the caption â€œRisk Factorsâ€Â included in our Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the U.S.Â Securities and ExchangeÂ Commission (the "SEC") on March 14, 2024,Â and/or as disclosed in any subsequent filings with the SEC. Â Forward-looking statements are based on information available as of the date of this Quarterly Report on Form 10-Q and our managementâ€™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. Â 4 Table of Contents Â Â PART I â€“ FINANCIAL INFORMATION Â Item 1. Financial Statements Â HOLLEY INC. CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share data) (unaudited) Â Â Â As of Â Â Â September 29, 2024 Â Â December 31, 2023 Â ASSETS Â Â Â Â Â Â Â Â Cash and cash equivalents Â $50,751Â Â $41,081Â Accounts receivable, less allowance for credit losses of $1,970 and $1,577 respectively Â Â 44,492Â Â Â 48,360Â Inventory Â Â 179,285Â Â Â 192,260Â Prepaids and other current assets Â Â 16,332Â Â Â 15,665Â Assets held for sale Â Â 7,696Â Â Â -Â Total current assets Â Â 298,556Â Â Â 297,366Â Property, plant, and equipment, net Â Â 42,718Â Â Â 47,206Â Goodwill Â Â 413,245Â Â Â 419,056Â Other intangibles assets, net Â Â 398,804Â Â Â 410,465Â Right-of-use assets Â Â 30,911Â Â Â 29,250Â Total assets Â $1,184,234Â Â $1,203,343Â LIABILITIES AND STOCKHOLDERS' EQUITY Â Â Â Â Â Â Â Â Accounts payable Â $52,738Â Â $43,692Â Accrued interest Â Â 487Â Â Â 455Â Accrued liabilities Â Â 41,164Â Â Â 42,129Â Current portion of long-term debt Â Â 7,479Â Â Â 7,461Â Total current liabilities Â Â 101,868Â Â Â 93,737Â Long-term debt, net of current portion Â Â 548,905Â Â Â 576,710Â Warrant liability Â Â 813Â Â Â 8,383Â Earn-out liability Â Â 1,138Â Â Â 3,479Â Deferred taxes Â Â 45,008Â Â Â 53,542Â Other noncurrent liabilities Â Â 27,759Â Â Â 26,341Â Total liabilities Â Â 725,491Â Â Â 762,192Â Commitments and contingencies (Refer to Note 15 - Commitments and Contingencies) Â Â Â Â Â Â Â Â Â Â Â Stockholders' equity: Â Â Â Â Â Â Â Â Preferred stock, $0.0001 par value, 5,000,000 shares authorized, none issued and outstanding on September 29, 2024 and December 31, 2023 Â Â â€”Â Â Â â€”Â Common stock, $0.0001 par value, 550,000,000 shares authorized, 118,703,283 and 117,707,280 shares issued and outstanding on September 29, 2024 and December 31, 2023, respectively Â Â 12Â Â Â 12Â Additional paid-in capital Â Â 376,670Â Â Â 373,869Â Accumulated other comprehensive loss Â Â (466)Â Â (710) Retained earnings Â Â 82,527Â Â Â 67,980Â Total stockholders' equity Â Â 458,743Â Â Â 441,151Â Total liabilities and stockholders' equity Â $1,184,234Â Â $1,203,343Â Â The accompanying notes are an integral part of the unaudited condensed consolidated financial statements. Â 5 Table of Contents Â Â HOLLEY INC. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in thousands) (unaudited) Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Net sales Â $ 134,038 Â Â $ 156,530 Â Â $ 462,170 Â Â $ 503,997 Â Cost of goods sold Â Â 81,732 Â Â Â 98,156 Â Â Â 287,512 Â Â Â 308,162 Â Gross profit Â Â 52,306 Â Â Â 58,374 Â Â Â 174,658 Â Â Â 195,835 Â Selling, general, and administrative Â Â 30,109 Â Â Â 28,880 Â Â Â 97,675 Â Â Â 87,998 Â Research and development costs Â Â 4,620 Â Â Â 6,100 Â Â Â 13,743 Â Â Â 18,935 Â Amortization of intangible assets Â Â 3,436 Â Â Â 3,687 Â Â Â 10,307 Â Â Â 11,040 Â Restructuring costs Â Â 954 Â Â Â 415 Â Â Â 1,566 Â Â Â 2,106 Â Write-down of assets held-for-sale Â Â 7,505 Â Â Â - Â Â Â 7,505 Â Â Â - Â Other operating expense Â Â 119 Â Â Â (28) Â Â 213 Â Â Â 508 Â Total operating expense Â Â 46,743 Â Â Â 39,054 Â Â Â 131,009 Â Â Â 120,587 Â Operating income Â Â 5,563 Â Â Â 19,320 Â Â Â 43,649 Â Â Â 75,248 Â Change in fair value of warrant liability Â Â (1,041) Â Â 2,064 Â Â Â (7,570) Â Â 5,516 Â Change in fair value of earn-out liability Â Â (634) Â Â 700 Â Â Â (2,341) Â Â 2,089 Â Loss on early extinguishment of debt Â Â â€” Â Â Â â€” Â Â Â 141 Â Â Â â€” Â Interest expense, net Â Â 15,010 Â Â Â 13,712 Â Â Â 39,192 Â Â Â 41,909 Â Total non-operating expense Â Â 13,335 Â Â Â 16,476 Â Â Â 29,422 Â Â Â 49,514 Â Income (loss) before income taxes Â Â (7,772) Â Â 2,844 Â Â Â 14,227 Â Â Â 25,734 Â Income tax expense (benefit) Â Â (1,484) Â Â 2,092 Â Â Â (320) Â Â 7,756 Â Net income (loss) Â $ (6,288) Â $ 752 Â Â $ 14,547 Â Â $ 17,978 Â Comprehensive income (loss): Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Foreign currency translation adjustment Â Â 386 Â Â Â (176) Â Â 244 Â Â Â (103) Total comprehensive income (loss) Â $ (5,902) Â $ 576 Â Â $ 14,791 Â Â $ 17,875 Â Common Share Data: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Weighted average common shares outstanding - basic Â Â 118,694,139 Â Â Â 117,397,069 Â Â Â 118,345,442 Â Â Â 117,256,959 Â Weighted average common shares outstanding - diluted Â Â 118,694,139 Â Â Â 119,245,956 Â Â Â 119,153,568 Â Â Â 118,119,501 Â Basic net income (loss) per share Â $ (0.05) Â $ 0.01 Â Â $ 0.12 Â Â $ 0.15 Â Diluted net income (loss) per share Â $ (0.05) Â $ 0.01 Â Â $ 0.12 Â Â $ 0.15 Â Â The accompanying notes are an integral part of the unaudited condensed consolidated financial statements. Â 6 Table of Contents Â Â HOLLEY INC. CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (in thousands, except share data) (unaudited) Â Â Â Common Stock Â Â Â Â Â Â Accumulated Â Additional Â Â Other Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Paid-In Â

Â Comprehensive Â Â Retained Â Â Â Â Â Â Â Shares Â Â Amount Â Â Capital Â Â Loss Â Â Earnings Â Â Total Â Balance at December 31, 2022 Â Â 117,147,997 Â Â $ 12 Â Â $ 368,122 Â Â $ (944) Â $ 48,800 Â Â $ 415,990 Â Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 4,247 Â Â Â 4,247 Â Equity compensation Â Â â€” Â Â Â â€” Â Â Â 394 Â Â Â â€” Â Â Â â€” Â Â Â 394 Â Foreign currency translation Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (199) Â Â â€” Â Â Â (199) Tax withholding related to vesting of restricted stock units Â Â â€” Â Â Â â€” Â Â Â (34) Â Â â€” Â Â Â â€” Â Â Â (34) Issuance of shares for restricted stock units Â Â 24,219 Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Balance at April 2, 2023 Â Â 117,172,216 Â Â $ 12 Â Â $ 368,482 Â Â $ (1,143) Â $ 53,047 Â Â $ 420,398 Â Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 12,979 Â Â Â 12,979 Â Equity compensation Â Â â€” Â Â Â â€” Â Â Â 1,806 Â Â Â â€” Â Â Â â€” Â Â Â 1,806 Â Foreign currency translation Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 272 Â Â Â â€” Â Â Â 272 Â Tax withholding related to vesting of restricted stock units Â Â â€” Â Â Â â€” Â Â Â (39) Â Â â€” Â Â Â â€” Â Â Â (39) Issuance of shares for restricted stock units Â Â 77,638 Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Balance at July 3, 2023 Â Â 117,249,854 Â Â Â 12 Â Â Â 370,249 Â Â Â (871) Â Â 66,026 Â Â Â 435,416 Â Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 752 Â Â Â 752 Â Equity compensation Â Â â€” Â Â Â â€” Â Â Â 2,970 Â Â Â â€” Â Â Â â€” Â Â Â 2,970 Â Foreign currency translation Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (176) Â Â â€” Â Â Â (176) Tax withholding related to vesting of restricted stock units Â Â â€” Â Â Â â€” Â Â Â (1,061) Â Â â€” Â Â Â â€” Â Â Â (1,061) Issuance of shares for restricted stock units Â Â 223,268 Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Balance at October 1, 2023 Â Â 117,473,122 Â Â Â 12 Â Â Â 372,158 Â Â Â (1,047) Â Â 66,778 Â Â Â 437,901 Â Balance at December 31, 2023 Â Â 117,707,280 Â Â $ 12 Â Â $ 373,869 Â Â $ (710) Â $ 67,980 Â Â $ 441,151 Â Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 3,730 Â Â Â 3,730 Â Equity compensation Â Â â€” Â Â Â â€” Â Â Â 1,141 Â Â Â â€” Â Â Â â€” Â Â Â 1,141 Â Foreign currency translation Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (186) Â Â â€” Â Â Â (186) Tax withholding related to vesting of restricted stock units Â Â â€” Â Â Â â€” Â Â Â (921) Â Â â€” Â Â Â â€” Â Â Â (921) Issuance of shares for restricted stock units Â Â 604,061 Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Balance at March 31, 2024 Â Â 118,311,341 Â Â $ 12 Â Â $ 374,089 Â Â $ (896) Â $ 71,710 Â Â $ 444,915 Â Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 17,105 Â Â Â 17,105 Â Equity compensation Â Â â€” Â Â Â â€” Â Â Â 1,621 Â Â Â â€” Â Â Â â€” Â Â Â 1,621 Â Foreign currency translation Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 44 Â Â Â â€” Â Â Â 44 Â Tax withholding related to vesting of restricted stock units Â Â â€” Â Â Â â€” Â Â Â (516) Â Â â€” Â Â Â â€” Â Â Â (516) Issuance of shares for restricted stock units Â Â 372,131 Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Balance at June 30, 2024 Â Â 118,683,472 Â Â $ 12 Â Â $ 375,194 Â Â $ (852) Â $ 88,815 Â Â $ 463,169 Â Net loss Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (6,288) Â Â (6,288) Equity compensation Â Â â€” Â Â Â â€” Â Â Â 1,521 Â Â Â â€” Â Â Â â€” Â Â Â 1,521 Â Foreign currency translation Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 386 Â Â Â â€” Â Â Â 386 Â Tax withholding related to vesting of restricted stock units Â Â â€” Â Â Â â€” Â Â Â (45) Â Â â€” Â Â Â â€” Â Â Â (45) Issuance of shares for restricted stock units Â Â 19,811 Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Balance at September 29, 2024 Â Â 118,703,283 Â Â $ 12 Â Â $ 376,670 Â Â $ (466) Â $ 82,527 Â Â $ 458,743 Â Â The accompanying notes are an integral part of the unaudited condensed consolidated financial statements. Â 7 Table of Contents Â Â HOLLEY INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) (unaudited) Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â OPERATING ACTIVITIES: Â Â Â Â Â Â Â Â Net income Â $ 14,547 Â Â $ 17,978 Â Adjustments to reconcile net income to net cash from operating activities: Â Â Â Â Â Â Â Â Depreciation Â Â 7,364 Â Â Â 7,738 Â Amortization of intangible assets Â Â 10,307 Â Â Â 11,040 Â Amortization of deferred loan costs Â Â 1,314 Â Â Â 1,339 Â Amortization of right of use assets Â Â 4,103 Â Â Â 4,014 Â Write-down of assets held-for-sale Â Â 7,505 Â Â Â - Â Fair value adjustments to warrant liability Â Â (7,570) Â Â 5,516 Â Fair value adjustments to earn-out liability Â Â (2,341) Â Â 2,089 Â Fair value adjustments to interest rate collar Â Â (151) Â Â (3,185) Equity compensation Â Â 4,283 Â Â Â 5,170 Â Change in deferred taxes Â Â (8,534) Â Â (8,616) Loss on early extinguishment of long-term debt Â Â 141 Â Â Â - Â Gain on disposal of property, plant and equipment Â Â (568) Â Â (227) Provision for inventory reserves Â Â 10,451 Â Â Â 3,824 Â Provision for credit losses Â Â 528 Â Â Â 744 Â Change in operating assets and liabilities: Â Â Â Â Â Â Â Â Accounts receivable Â Â 3,359 Â Â Â (1,054) Inventories Â Â (2,303) Â Â 21,046 Â Prepaids and other current assets Â Â (653) Â Â 4,862 Â Accounts payable Â Â 9,025 Â Â Â (5,413) Accrued interest Â Â 32 Â Â Â (5,670) Accrued and other liabilities Â Â (8,066) Â Â (4,332) Net cash provided by operating activities Â Â 42,773 Â Â Â 56,863 Â INVESTING ACTIVITIES: Â Â Â Â Â Â Â Â Capital expenditures Â Â (4,372) Â Â (4,417) Proceeds from the disposal of fixed assets Â Â 1,645 Â Â Â 1,292 Â Net cash used in investing activities Â Â (2,727) Â Â (3,125) FINANCING ACTIVITIES: Â Â Â Â Â Â Â Â Principal payments on long-term debt Â Â (28,832) Â Â (40,437) Deferred financing fees Â Â â€” Â Â Â (1,427) Payments from stock-based award activities Â Â (1,482) Â Â (1,134) Net cash used in financing activities Â Â (30,314) Â Â (42,998) Effect of foreign currency rate fluctuations on cash Â Â (62) Â Â (57) Net change in cash and cash equivalents Â Â 9,670 Â Â Â 10,683 Â Cash and cash equivalents: Â Â Â Â Â Â Â Â Beginning of period Â Â 41,081 Â Â Â 26,150 Â End of period Â $ 50,751 Â Â $ 36,833 Â Supplemental disclosures of cash flow information: Â Â Â Â Â Â Â Â Cash paid for interest Â $ 39,453 Â Â $ 50,290 Â Cash paid for income taxes Â Â 7,596 Â Â Â 16,041 Â Supplemental non-cash investing activity: Â Â Â Â Â Â Â Â Property and equipment additions included in accounts payable Â $ 168 Â Â $ â€” Â Â The accompanying notes are an integral part of the unaudited condensed consolidated financial statements. Â 8 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Â 1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Â 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.Â When used in these notes, the terms the â€œCompanyâ€ or â€œHolleyâ€ mean Holley, Inc. and all entities included in its consolidated financial statements. Â The Company designs, manufactures and distributes high-performance automotive products to car and truck enthusiastsÂ 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 Companyâ€™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. Â Emerging Growth Company Status Â Section 102(b)(1) of the JOBS ActÂ 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. Â Risks and Uncertainties Â The Company's business and results of operations, financial condition, and liquidity are impacted by broad economic conditions, as well as by geopolitical events, including the conflict in Ukraine, the conflict in the Middle East, and the possible expansion of such conflicts and potential geopolitical consequences. The Company's business is impacted by various economic factors that affect both consumers and the automotive aftermarket industry, including butÂ not limited to inflation, fuel costs, wage rates, supply chain disruptions, hiring, and other economic conditions.Â In response to inflationary impacts and supply chain disruptions, the Company hasÂ attempted to minimize potential adverse impacts on itsÂ business with cost savings initiatives, price increases to customers, and increased attention toÂ maintaining appropriate inventory levels in the distribution channel. The Company'sÂ 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 increaseÂ our costs.Â Should the ongoing macroeconomic conditions not improve, or worsen, or if the Company's attemptÂ to mitigate the impact on its supply chain, operations and costs is not successful,Â the Companyâ€™s business, results of operations and financial condition may be adversely affected. Â Basis of Presentation Â 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 â€œGAAPâ€) and applicable rules and regulations of the SECÂ 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 endedÂ December 31, 2023, as filed with the SEC on March 14, 2024, in the Companyâ€™s annual report on Form 10-K. In managementâ€™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. Â 9 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â The Company operates on a fiscalÂ year that ends onÂ December 31. TheÂ three- and nine-month periods ended September 29, 2024Â and October 1, 2023Â each included 13 weeks and 39 weeks, respectively. Â Principles of Consolidation Â 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. Â Recent Accounting Pronouncements Â Accounting Standards Not YetÂ Adopted Â InÂ October 2023,Â the FASB issuedÂ ASUÂ 2023-06,Â Disclosure Improvements: Codification Amendments in Response to SEC's Disclosure Update and Simplification Initiative.Â This ASUÂ amendsÂ the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification.Â The effective date for each amendment will be the date on whichÂ the SEC's removal of that related disclosure fromÂ Regulation S-XÂ orÂ Regulation S-KÂ becomes effective, with early adoption prohibited.Â 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 doesÂ notÂ anticipate that the adoption of the new guidance will have a material impact on the Companyâ€™s consolidated financial statements and related disclosures. The Company will continue to evaluate the impact of this guidance on its consolidated financial statements. Â InÂ November 2023,Â the FASB issuedÂ ASUÂ 2023-07,Â Segment Reporting (TopicÂ 280): Improvements to Reportable Segment Disclosures. ThisÂ ASU expandsÂ 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 segmentâ€™s profit or loss, requires interim disclosures about a reportable segmentâ€™s profit or loss and assets that are currently required annually, requires disclosure of the position and title of the CODM, clarifies circumstances in 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 afterÂ December 15, 2023Â and interim periods within fiscal years beginning afterÂ December 15, 2024,Â with early adoption permitted. The Company is currently evaluating the effect of this new guidance on itsÂ consolidated financial statements and related disclosures. Â InÂ December 2023,Â the FASB issued ASUÂ 2023-09,Â Income Taxes (TopicÂ 740): Improvements to Income Tax Disclosures.Â 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 afterÂ December 15, 2024Â and interim periods within fiscal years beginning afterÂ December 15, 2025,Â with early adoption permitted. The Company is currently evaluating the effect of this new guidance on itsÂ consolidated financial statements and related disclosures. Â Â Â 2. INVENTORY Â Inventories of the Company consisted of the following: Â Â Â As of Â Â Â September 29, 2024 Â Â December 31, 2023 Â Raw materials Â $ 59,071 Â Â $ 63,552 Â Work-in-process Â Â 19,669 Â Â Â 22,619 Â Finished goods Â Â 100,545 Â Â Â 106,089 Â Â Â $ 179,285 Â Â $ 192,260 Â Â During theÂ 39-week period ended September 29, 2024, the Company recognized a strategic product rationalization chargeÂ ofÂ $8,835,Â primarily due to product rationalization initiatives aimed at eliminating unprofitable or slow-moving stock keeping units. Â 10 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Â 3. PROPERTY, PLANT AND EQUIPMENT, NET Â Property, plant and equipment of the Company consisted of the following: Â Â Â As of Â Â Â September 29, 2024 Â Â December 31, 2023 Â Land Â $1,230Â Â $3,326Â Buildings and improvements Â Â 11,936Â Â Â 11,404Â Machinery and equipment Â Â 72,952Â Â Â 73,332Â Construction in process Â Â 8,093Â Â Â 6,224Â Total property, plant and equipment Â Â 94,211Â Â Â 94,286Â Less: accumulated depreciation Â Â 51,493Â Â Â 47,080Â Property, plant and equipment, net Â $42,718Â Â $47,206Â Â The Companyâ€™s long-lived assets by geographic locations are as follows: Â Â Â As of Â Â Â September 29, 2024 Â Â December 31, 2023 Â United States Â $39,716Â Â $44,931Â International Â Â 3,002Â Â Â 2,275Â Total property, plant and equipment, net Â $42,718Â Â $47,206Â Â Assets Held for Sale Â Assets held for sale includes the net book value ofÂ assets the Company plans to sell during the fourth quarter of 2024. Long-lived assets that meet the held for sale criteria are held for sale and reported at the lower of their carrying value or fair value, less estimated costs to sell. Â DuringÂ theÂ 39-week period ended September 29, 2024, the Company entered into a letter of intent to sell certain assets and liabilities of Detroit Speed EngineeringÂ for $5,600. The Company adjusted the carrying value of the assets from $13,105Â to the fair value of $5,600, and recognized a loss on held-for-saleÂ assets for $7,505Â in the condensed consolidated statements of comprehensive income for theÂ 13-week and 39-week periods ended September 29, 2024.Â The Detroit Speed Assets are classified as assets held for sale in the condensed consolidated balance sheets as ofÂ September 29, 2024Â for $5,600. The Company expects for the sale to close during the fourth quarter of 2024.Â Â DuringÂ theÂ 39-week period ended September 29, 2024, the Company entered into an agreement to sell land at Porter Pike for $2,400. The land isÂ classified as assets held for sale in the condensed consolidated balance sheets as ofÂ September 29, 2024Â for $2,096. The Company expects for the sale to close during the fourth quarter of 2024.Â Â Â As of September 29, 2024, the Company classified Detroit Speed Engineering and the Porter Pike land as held for sale. Assets held for sale at September 29, 2024 consisted of the following: Â Â Â As of Â Â Â September 29, 2024 Â Inventory Â $4,632Â Land Â Â 2,096Â Machinery and equipment Â Â 951Â Intangible assets Â Â 17Â Assets Held for Sale Â $7,696Â Â Â 4. GOODWILL AND OTHER INTANGIBLE ASSETS Â 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 Company impaired $5,810 of goodwill related to Detroit Speed EngineeringÂ during theÂ 39-week period ended September 29, 2024. Refer to Note 3Â "Property, Plant and Equipment, Net", for additional information. Â No goodwill impairment charges were incurred during theÂ 13-week and 39-week periods ended September 29, 2024 and October 1, 2023Â other than the amount recognized related to Detroit Speed Engineering.Â Potential changes in the Company'sÂ costs and operating structure, the implementationÂ 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'sÂ goodwill and / or indefinite-lived intangible assets. In addition, failure to execute the Company'sÂ strategic plans as well as increases in weighted average costs of capital could negatively impact the fair value of theÂ reporting unitÂ and increase the risk of futureÂ impairment charges.Â Â 11 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Intangible assets consisted of the following: Â Â Â September 29, 2024 Â Â Â Gross Carrying Amount Â Â Accumulated Amortization Â Â Net Carrying Value Â Finite-lived intangible assets: Â Â Â Â Â Â Â Â Â Â Â Â Customer relationships Â $269,950Â Â $(64,397)Â $205,553Â Tradenames Â Â 13,775Â Â Â (6,112)Â Â 7,663Â Technology Â Â 26,676Â Â Â (14,899)Â Â 11,777Â Total finite-lived intangible assets Â $310,401Â Â $(85,408)Â $224,993Â Â Â Â Â Â Â Â Â Â Â Â Â Â Indefinite-lived intangible assets: Â Â Â Â Â Â Â Â Â Â Â Â Tradenames Â $173,811Â Â Â â€”Â Â $173,811Â Â Â Â December 31, 2023 Â Â Â Gross Carrying Amount Â Â Accumulated Amortization Â Â Net Carrying Value Â Finite-lived intangible assets: Â Â Â Â Â Â Â Â Â Â Â Â Customer relationships Â $269,950Â Â $(55,732)Â $214,218Â Tradenames Â Â 13,775Â Â Â (5,569)Â Â 8,206Â Technology Â Â 26,676Â Â Â (13,800)Â Â 12,876Â Total finite-lived intangible assets Â $310,401Â Â $(75,101)Â $235,300Â Â Â Â Â Â Â Â Â Â Â Â Â Â Indefinite-lived intangible assets: Â Â Â Â Â Â Â Â Â Â Â Â Tradenames Â $175,165Â Â Â â€”Â Â $175,165Â Â The following outlines the estimated future amortization expense related to intangible assets held as of September 29, 2024: Â 2024 (excluding the thirty-nine weeks ended September 29, 2024) Â $3,436Â 2025 Â Â 13,713Â 2026 Â Â 13,608Â 2027 Â Â 13,602Â 2028 Â Â 13,602Â Thereafter Â Â 167,032Â Total Â $224,993Â Â Â Â 5. ACCRUED LIABILITIES Â Accrued liabilities of the Company consisted of the following: Â Â Â As of Â Â Â September 29, 2024 Â Â December 31, 2023 Â Accrued freight Â $ 2,727 Â Â $ 5,654 Â Accrued employee compensation and benefits Â Â 11,772 Â Â Â 11,696 Â Accrued returns and allowances Â Â 12,583 Â Â Â 11,267 Â Accrued taxes Â Â 212 Â Â Â 1,475 Â Current portion of operating lease liabilities Â Â 4,302 Â Â Â 4,948 Â Accrued other Â Â 9,568 Â Â Â 7,089 Â Total accrued liabilities Â $ 41,164 Â Â $ 42,129 Â Â Â 12 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Â Â 6. DEBT Â Debt of the Company consisted of the following: Â Â Â As of Â Â Â September 29, 2024 Â Â December 31, 2023 Â First lien term loan due November 17, 2028 Â $ 564,219 Â Â $ 592,505 Â Other Â Â 905 Â Â Â 1,974 Â Less unamortized debt issuance costs Â Â (8,740) Â Â (10,308) Â Â Â 556,384 Â Â Â 584,171 Â Less current portion of long-term debt Â Â (7,479) Â Â (7,461) Â Â $ 548,905 Â Â $ 576,710 Â Â 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 consistedÂ 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.Â 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 outstandingÂ under the first lien term loan due November 17, 2028.Â Proceeds from the credit facility were used to repay in full the Companyâ€™s obligations under its previously existing first lien and second lien notes and to pay $13,413 in deferred financing feesÂ related to the refinancing. Â 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 hadÂ $2,150 in outstanding letters of credit on September 29, 2024. Â The first lien term loan is to be repaid in quarterly payments of $1,643Â 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 2023, no excess cash flow payment is required in 2024.Â Any such payments offset future mandatory quarterly payments. The CreditÂ Agreement permits voluntary prepayments at any time, in whole or in part. The Company repurchased $25,000Â outstanding principal on its first lien term loan at a discount to parÂ during theÂ 39-week period ended September 29, 2024. Â As of September 29, 2024, amounts outstanding under the credit facility accrue interest at a rate equal to either the Secured Overnight Financing RateÂ ("SOFR") or base rate, at the Company's election, plus a specified margin.Â 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 September 29, 2024, the weighted average interest rate on the Company's borrowings under the credit facility wasÂ 9.1%. Â 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 8, "Derivative Instruments," for additional information.Â Â Obligations under the Credit Agreement are secured by substantially all of the Companyâ€™s assets, including a secured interest in the Company's headquarters, with a carrying value of $5,722.Â The Credit Agreement includes representations and warrantiesÂ 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. Â 13 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â In February 2023, the Company entered into an amendment toÂ the Credit Agreement which, among other things, increases the Total Leverage Ratio applicable under the Credit Agreement as of the quarter ending April 2, 2023 to initially 7.25:1.00, and provides forÂ modified step-down levels for such covenant thereafterÂ through the fiscal quarter ending June 30, 2024 (the â€œCovenantÂ ReliefÂ Periodâ€). As of June 30, 2024, the required Total Leverage Ratio was5.00:1.00.As aÂ 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.Â In April 2023, the Company entered into a secondÂ amendment to the Credit Agreement in which the interest rate on any outstanding borrowings under the Credit Agreement wasÂ changed from LIBOR to SOFR. In May 2023, the Company entered into aÂ third amendment to the Credit Agreement in which certain defined terms were clarified.Â The Company incurred $1,427Â of deferred financing feesÂ related to these amendments.Â On September 29, 2024, the Company was in compliance with all financial covenants.Â Â 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. Â Future maturities of long-term debt and amortization of debt issuance costs as of September 29, 2024Â are as follows: Â Â Â Debt Â Â Debt Issuance Costs Â 2024 (excluding the thirty-nine weeks ended September 29, 2024) Â $ 3,510 Â Â $ 429 Â 2025 Â Â 7,253 Â Â Â 1,876 Â 2026 Â Â 6,571 Â Â Â 2,034 Â 2027 Â Â 6,571 Â Â Â 2,209 Â 2028 Â Â 541,219 Â Â Â 2,192 Â Â Â $ 565,124 Â Â $ 8,740 Â Â Â 7. COMMON STOCK WARRANTS AND EARN-OUT LIABILITY Â The Company consummated aÂ business combination (the â€œBusiness Combinationâ€) pursuant to that certain Agreement and Plan of Merger dated March 11, 2021 (the â€œMerger Agreementâ€), by and among Empower Ltd., (â€œEmpowerâ€), Empower Merger Sub I Inc., Empower Merger Sub II LLC, and Holley Intermediate Holdings, Inc. (â€œHolley Intermediateâ€) on July 16, 2021, (the â€œClosingâ€ and such date, the â€œClosing Dateâ€). 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"Â and together with the Public Warrants, the â€œWarrantsâ€), outstanding to purchase shares of Common Stock that were issued by EmpowerÂ 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. Â Â 14 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â 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.Â Further, the Company may redeem the Public Warrants at a price of $0.10 per warrant upon 30 days' notice if the closing price ofÂ 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. Â 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, andÂ 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. Â The Companyâ€™s Warrants areÂ 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 September 29, 2024Â andÂ December 31, 2023,Â aÂ warrant liability with a fair value of $813Â andÂ $8,383, respectively, was reflected as a long-term liability in the condensed consolidated balance sheet. A decreaseÂ ofÂ $1,041Â and an increaseÂ ofÂ $2,064Â 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 September 29, 2024 and October 1, 2023, respectively.Â A decreaseÂ ofÂ $7,570Â and an increaseÂ ofÂ $5,516Â 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 theÂ 39-week periods ended September 29, 2024 and October 1, 2023, respectively.Â Â Additionally, the SponsorÂ 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 â€œEarn-Out Sharesâ€). 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 sheetÂ and are remeasured at fair value with changes in fair value recognized as non-operating expense.Â As of September 29, 2024Â andÂ December 31, 2023, an earn-outÂ liability with a fair value ofÂ $1,138Â andÂ $3,479, respectively, was reflected as a long-term liability in the condensed consolidated balance sheet. A decreaseÂ ofÂ $634 and an increase ofÂ $700Â in the fair value of the earn-outÂ liability was reflected as change in fair value of earn-outÂ liability in the condensed consolidated statements of comprehensive income for the 13-week periods ended September 29, 2024 and October 1, 2023, respectively.Â A decreaseÂ ofÂ $2,341Â and an increase ofÂ $2,089 in the fair value of the earn-outÂ liability was reflected as change in fair value of earn-outÂ liability in the condensed consolidated statements of comprehensive income for theÂ 39-week periods ended September 29, 2024 and October 1, 2023, respectively.Â Â Â 8. DERIVATIVE INSTRUMENTS Â The Company from time to time enters into derivative financial instruments, such as interest rate collar agreements (each, a â€œCollarâ€), to manage its exposure to fluctuations in interest rates onÂ the Companyâ€™s variable rate debt.Â On January 4, 2023, the Company entered into a CollarÂ 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 CollarÂ is such that the Company receivesÂ an incremental amount if the Collar index exceeds the cap rate. Conversely, the Company pays an incremental amount to Wells FargoÂ if the Collar index falls below the floor rate. No payments are required if the Collar index falls between the cap and floor rates.Â Â As of September 29, 2024, the Company recognized a derivative liability of $1,013Â for the Collar inÂ other noncurrent assetsÂ on the condensedÂ consolidated balance sheet. The Company recorded aÂ net change in the fair value of the Collar as a decrease to interest expense ofÂ $2,204 andÂ $151, for theÂ 13-week and 39-week periods ended September 29, 2024, respectively. Cash receipts for the Collar totaledÂ $412Â andÂ $1,280 for theÂ 13-week and 39-week periods ended September 29, 2024, respectively. Â The fair value of theÂ CollarÂ is determined using observable market-based inputs and the impact of credit risk on theÂ derivativeâ€™s fair value (the creditworthiness of the Companyâ€™s counterparty for assets and the creditworthiness of the Company for liabilities) (a Level 2 measurement, as described in Note 9, "Fair Value Measurements"). Â 15 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Â 9. FAIR VALUE MEASUREMENTS Â The Companyâ€™s financial liabilities subject to fair value measurement on a recurring basis and the level of inputs used for such measurements were as follows: Â Â Â Fair Value Measured on September 29, 2024 Â Â Â Level 1 Â Â Level 2 Â Â Level 3 Â Â Total Â Liabilities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Warrant liability (Public) Â $ 548 Â Â $ â€” Â Â $ â€” Â Â $ 548 Â Warrant liability (Private) Â Â â€” Â Â Â â€” Â Â Â 265 Â Â Â 265 Â Earn-out liability Â Â â€” Â Â Â â€” Â Â Â 1,138 Â Â Â 1,138 Â Interest rate collar liability Â Â â€” Â Â Â 1,013 Â Â Â â€” Â Â Â 1,013 Â Total fair value liabilities Â $ 548 Â Â $ 1,013 Â Â $ 1,403 Â Â $ 2,964 Â Â Â Â Fair Value Measured on December 31, 2023 Â Â Â Level 1 Â Â Level 2 Â Â Level 3 Â Â Total Â Liabilities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Warrant liability (Public) Â $ 5,480 Â Â $ â€” Â Â $ â€” Â Â $ 5,480 Â Warrant liability (Private) Â Â â€” Â Â Â â€” Â Â Â 2,903 Â Â Â 2,903 Â Earn-out liability Â Â â€” Â Â Â â€” Â Â Â 3,479 Â Â Â 3,479 Â Interest rate collar liability Â Â â€” Â Â Â 1,164 Â Â Â â€” Â Â Â 1,164 Â Total fair value liabilities Â $ 5,480 Â Â $ 1,164 Â Â $ 6,382 Â Â $ 13,026 Â Â As of September 29, 2024, the Company's derivative liabilities for its Private and Public Warrants,Â earn-out liability, and derivative asset for its CollarÂ are measured at fair value on a recurring basis (see Note 7, â€œCommon Stock Warrants and Earn-Out Liability,â€ and Note 8, "Derivative Instruments," for more details). The fair values ofÂ 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 assetsÂ 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).Â 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 theÂ condensed consolidated statements of comprehensive income. Changes in the fair value of the derivative liabilities related to Warrants and the earn-out liability and changesÂ in the fair value of the Collar are recognized in net cash provided by operating activities on the condensed consolidated statements of cash flows. Â The fair value of Private Warrants was estimated as of the measurement date using the Monte Carlo simulation model with the following assumptions: Â Â Â September 29, 2024 Â Â December 31, 2023 Â Valuation date price Â $ 2.95 Â Â $ 4.87 Â Strike price Â $ 11.50 Â Â $ 11.50 Â Remaining life (in years) Â Â 1.79 Â Â Â 2.54 Â Expected dividend Â $ â€” Â Â $ â€” Â Risk-free interest rate Â Â 3.65 % Â Â 4.01 % Price threshold Â $ 18.00 Â Â $ 18.00 Â Â 16 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â 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: Â Â Â September 29, 2024 Â Â December 31, 2023 Â Valuation date price Â $ 2.95 Â Â $ 4.87 Â Expected term (in years) Â Â 3.79 Â Â Â 4.54 Â Expected volatility Â Â 63.64 % Â Â 67.20 % Risk-free interest rate Â Â 3.51 % Â Â 3.79 % Price hurdle Â $ 15.00 Â Â $ 15.00 Â Â Â As of September 29, 2024Â andÂ December 31, 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 Companyâ€™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. Â The reconciliation of changes in Level 3 liabilities during theÂ 39-week periods ended September 29, 2024 and October 1, 2023Â is as follows: Â Â Â Private Warrants Â Â Earn-Out Liability Â Â Total Â Balance at December 31, 2022 Â $ 1,581 Â Â $ 1,176 Â Â $ 2,757 Â Losses included in earnings Â Â 518 Â Â Â 428 Â Â Â 946 Â Balance at October 1, 2023 Â $ 2,099 Â Â $ 1,604 Â Â $ 3,703 Â Â Â Â Â Â Â Â Â Â Â Â Â Balance at December 31, 2023 Â $ 2,903 Â Â $ 3,479 Â Â $ 6,382 Â Gains included in earnings Â Â (2,638) Â Â (2,341) Â Â (4,979) Balance at September 29, 2024 Â $ 265 Â Â $ 1,138 Â Â $ 1,403 Â Â Â 10. REVENUE Â 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.). Â 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. Â 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. Â 17 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â The Companyâ€™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 15, â€œCommitments and Contingenciesâ€ for more information. Â The following table summarizes total revenue by product category. Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Electronic systems Â $ 57,716 Â Â $ 70,062 Â Â $ 193,211 Â Â $ 213,214 Â Mechanical systems Â Â 31,762 Â Â Â 37,870 Â Â Â 109,922 Â Â Â 122,108 Â Exhaust Â Â 11,403 Â Â Â 14,343 Â Â Â 40,592 Â Â Â 47,556 Â Accessories Â Â 20,333 Â Â Â 21,788 Â Â Â 68,146 Â Â Â 75,635 Â Safety Â Â 12,824 Â Â Â 12,467 Â Â Â 50,299 Â Â Â 45,484 Â Net sales Â $ 134,038 Â Â $ 156,530 Â Â $ 462,170 Â Â $ 503,997 Â Â The following table summarizes total revenue based on geographic location from which the product is shipped: Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â United States Â $ 130,459 Â Â $ 154,150 Â Â $ 447,206 Â Â $ 491,385 Â Italy Â Â 3,579 Â Â Â 2,380 Â Â Â 14,964 Â Â Â 12,612 Â Net sales Â $ 134,038 Â Â $ 156,530 Â Â $ 462,170 Â Â $ 503,997 Â Â Â 11. INCOME TAXES Â 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. Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Income tax expense (benefit) Â $ (1,484) Â $ 2,092 Â Â $ (320) Â $ 7,756 Â Effective tax rate Â Â 19.1 % Â Â 73.6 % Â Â (2.2)% Â Â 30.1 % Â For the 13-week period ended September 29, 2024, the Company's effective tax rate of 19.1%Â 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 periodÂ and the impact of foreign taxes in higher tax rate jurisdictions. For the 13-week period ended October 1, 2023, the Companyâ€™s effective tax rate ofÂ 73.6%Â differed from the 21% federal statutory rate primarily due to permanent differences related toÂ changes in the fair value of the warrant andÂ earn-out liabilitiesÂ recognized during the period.Â Â For theÂ 39-week period ended September 29, 2024, the Company's effective tax rate ofÂ -2.2% 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, federal research and development tax credits,Â 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 wasÂ recorded during the year as a discrete adjustment.Â For theÂ 39-week period ended October 1, 2023, the Companyâ€™s effective tax rate ofÂ 30.1%Â differed from the 21% federal statutory rate primarily due to permanent differences related toÂ changes in the fair value of the warrant andÂ earn-out liabilitiesÂ recognized during the period.Â Â 18 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Â Â 12. EARNINGS PER SHARE Â The following table sets forth the calculation of basic and diluted earnings per share: Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Numerator: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Net income (loss) Â $ (6,288) Â $ 752 Â Â $ 14,547 Â Â $ 17,978 Â Denominator: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Weighted average common shares outstanding - basic Â Â 118,694,139 Â Â Â 117,397,069 Â Â Â 118,345,442 Â Â Â 117,256,959 Â Dilutive effect of potential common shares from RSUs Â Â â€” Â Â Â 1,848,887 Â Â Â 740,025 Â Â Â 862,542 Â Dilutive effect of potential common shares from PSUs Â Â â€” Â Â Â â€” Â Â Â 68,101 Â Â Â â€” Â Weighted average common shares outstanding - diluted Â Â 118,694,139 Â Â Â 119,245,956 Â Â Â 119,153,568 Â Â Â 118,119,501 Â Earnings per share: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Basic Â $ (0.05) Â $ 0.01 Â Â $ 0.12 Â Â $ 0.15 Â Diluted Â $ (0.05) Â $ 0.01 Â Â $ 0.12 Â Â $ 0.15 Â Â 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.Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Anti-dilutive shares excluded from calculation of diluted EPS: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Warrants Â Â 14,633,311 Â Â Â 14,633,311 Â Â Â 14,633,311 Â Â Â 14,633,311 Â Stock options Â Â 454,064 Â Â Â 922,228 Â Â Â 454,064 Â Â Â 922,228 Â Restricted stock units Â Â 557,828 Â Â Â 175,783 Â Â Â 557,828 Â Â Â 175,783 Â Performance stock units Â Â 2,087,400 Â Â Â 2,177,462 Â Â Â 2,087,400 Â Â Â 2,177,462 Â Unvested Earn-Out Shares Â Â 1,093,750 Â Â Â 1,093,750 Â Â Â 1,093,750 Â Â Â 1,093,750 Â Total anti-dilutive shares Â Â 18,826,353 Â Â Â 19,002,534 Â Â Â 18,826,353 Â Â Â 19,002,534 Â Â Â Â 13. EQUITY-BASED COMPENSATION PLANS [OPEN] Â In 2021, the Company adopted the 2021 Omnibus Incentive Plan (the â€œ2021 Planâ€), under which awards, including stock options, restricted stock units ("RSUs")Â and performance stock units ("PSUs") may be granted to employees and non-employee directors. The 2021 Plan authorized 8,850,000Â shares of Common Stock to be available for award grants. As of September 29, 2024, 4,685,932Â 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 didÂ not require shareholder approval under the rules of the NYSE or otherwise.Â Â Equity-based compensation expense included the following components: Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Restricted stock units Â $ 944 Â Â $ 1,331 Â Â $ 2,686 Â Â $ 3,146 Â Performance stock units Â Â 491 Â Â Â 1,322 Â Â Â 1,376 Â Â Â 1,696 Â Stock options Â Â 86 Â Â Â 317 Â Â Â 221 Â Â Â 328 Â Â All equity-based compensation expenses areÂ recorded in selling, general and administrative costs in the condensed consolidated statements of comprehensive income. Â 19 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Restricted Stock Awards Â RSUs and PSUs are collectively referred to as "Restricted Stock Awards". The Compensation Committee has awarded RSUsÂ to select employees and non-employee directors and has awarded PSUs to select employees. The RSUs vest ratably over one to fourÂ years of continued employment.Â The grant date fair value of a 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 and is recognized over the requisite service period.Â The grant date fair value of a performance-based award with a market condition is determined using a Monte Carlo simulation and is recognized over the requisite service period. OnÂ September 29, 2024, there was $7,887Â of unrecognized compensation cost related to unvested Restricted Stock Awards that is expected to be recognized over a remaining weighted average period of 1.9Â years. Â The weighted-average grant-date fair value ofÂ Restricted Stock AwardsÂ granted during theÂ 39-week periods ended September 29, 2024 and October 1, 2023, was $3.83Â and $2.76Â respectively. The fair value of Restricted Stock AwardsÂ vested and converted to shares of Common Stock during theÂ 39-week periods ended September 29, 2024 and October 1, 2023, wasÂ $5,190Â andÂ $685, respectively. Â The following table summarizes Restricted Stock AwardÂ for theÂ 39-week period ended September 29, 2024: Â Â Unvested Restricted Stock Awards Â Â Â Â Â Â Weighted Average Â Â Â Number of RSAs Â Â Grant Date Fair Value Â Balance on December 31, 2023 Â Â 4,904,801 Â Â $ 2.86 Â Granted Â Â 1,504,665 Â Â 3.83 Â Vested Â Â (1,356,007) Â Â 3.04 Â Forfeited Â Â (713,838) Â Â 3.39 Â Balance on September 29, 2024 Â Â 4,339,621 Â Â $ 3.14 Â Â Performance-based RestrictedÂ Stock Units Â 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 4, 2024, the Company granted 340,895Â PSUs under the 2021 Plan to key employees with a grant date fair value of $4.22Â and on MarchÂ 18, 2024, the Company granted an additional 26,020Â PSUs with a grant date fair value of $4.25. On April 1, the Company granted 5,654 PSUs with a grant date fair value of $4.49;Â on April 8, the Company granted 30,544Â PSUs with a grant date fair value of $4.44;Â on April 15, the Company granted 36,144Â PSUs with a grant date fair value of $4.15;Â on April 29, the Company granted 28,741 PSUs with a grant date fair value of $4.05; on May 13, the Company granted 14,138Â PSUs with a grant date fair value of $3.93; on July 22, the Company granted 25,195Â PSUs with a grant date fair value of $3.67; and on August 19, the Company granted 1,965Â PSUs with a grant date fair value of $3.09.Â Â The PSUs granted to employeesÂ 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 employeeâ€™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 representÂ 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. Â Stock Options Â 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 September 29, 2024, there wasÂ $120Â of unrecognized compensation cost related to unvested stock options that is expected to be recognized over a remaining weighted-average period of 0.4Â years. Â 20 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â The following table summarizes stock option activity for theÂ 39-week period ended September 29, 2024: Â Â Â Â Â Â Â Â Â Â Â Â Weighted Average Â Â Â Â Â Â Â Weighted Â Â Remaining Â Â Â Number of Â Â Average Â Â Contractual Â Â Â Stock Options Â Â Exercise Price Â Â Term (years) Â Options outstanding on December 31, 2023 Â Â 886,046 Â Â $ 10.97 Â Â Â Â Â Forfeited Â Â (134,066) Â Â 11.03 Â Â Â Â Â Expired Â Â (297,916) Â Â 10.90 Â Â Â Â Â Options outstanding on September 29, 2024 Â Â 454,064 Â Â $ 11.01 Â Â Â 6.87 Â Options exercisable on September 29, 2024 Â Â 302,705 Â Â $ 11.01 Â Â Â 7.13 Â Â Â 14. LEASE COMMITMENTS Â 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 10Â years, inclusive of renewal options that the Company is reasonably certain to exercise. Â The following table summarizes operating lease assets and obligations, and provides information associated with the measurement of operating lease obligations. Â Â Â As of Â Â Â September 29, 2024 Â Â December 31, 2023 Â Assets: Â Â Â Â Â Â Â Â Operating right of use assets Â $ 30,911 Â Â $ 29,250 Â Liabilities: Â Â Â Â Â Â Â Â Current operating lease liabilities - Accrued liabilities Â $ 4,302 Â Â $ 4,948 Â Long-term operating lease liabilities Â Â 27,759 Â Â Â 25,177 Â Total lease liabilities Â $ 32,061 Â Â $ 30,125 Â Lease term and discount rate Â Â Â Â Â Â Â Â Weighted average remaining lease term (in years) Â Â 6.7 Â Â Â 7.2 Â Weighted average discount rate Â Â 6.29 % Â Â 6.21 % Â The following summarizes the components of operating lease expense and provides supplemental cash flow information for operating leases: Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Components of lease expense: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Operating lease expense Â $ 1,840 Â Â $ 1,630 Â Â $ 5,346 Â Â $ 4,923 Â Short-term lease expense Â Â 510 Â Â Â 521 Â Â Â 1,214 Â Â Â 1,499 Â Variable lease expense Â Â 68 Â Â Â 88 Â Â Â 254 Â Â Â 257 Â Total lease expense Â $ 2,418 Â Â $ 2,239 Â Â $ 6,814 Â Â $ 6,679 Â Supplemental cash flow information related to leases: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Cash paid for amounts included in measurement of operating lease liabilities Â $ 1,613 Â Â $ 1,720 Â Â $ 5,280 Â Â $ 3,471 Â Right-of-use assets obtained in exchange for new operating lease liabilities Â Â 2,582 Â Â Â 2,354 Â Â Â 6,958 Â Â Â 2,354 Â Decapitalization of right-of-use assets upon lease termination or modification Â Â 14 Â Â Â 154 Â Â Â 1,374 Â Â Â 154 Â Â 21 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â The following table summarizes the maturities of the Company's operating lease liabilities as of September 29, 2024: Â 2024 (excluding the thirty-nine weeks ended September 29, 2024) Â $ 1,601 Â 2025 Â Â 6,363 Â 2026 Â Â 5,972 Â 2027 Â Â 5,992 Â 2028 Â Â 5,562 Â Thereafter Â Â 14,157 Â Total lease payments Â Â 39,647 Â Less imputed interest Â Â (7,586) Present value of lease liabilities Â $ 32,061 Â Â Â 15. COMMITMENTS AND CONTINGENCIES Â LitigationÂ Â 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 willÂ notÂ 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 whichÂ mayÂ be beyond the Companyâ€™s control, an adverse outcome inÂ oneÂ or more of these matters could be material to the Companyâ€™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. Â A putative securities class action was filed onÂ November 6, 2023,Â against the Company, Tom Tomlinson (the Companyâ€™s former Director, President, and Chief Executive Officer), and Dominic Bardos (the Companyâ€™s former Chief Financial Officer) in the United States District Court for the Western District of Kentucky (the â€œComplaintâ€) and is captioned City of Fort Lauderdale General Employeesâ€™ Retirement System v. Holley, Inc., f/k/a Empower LTD., Tom Tomlinson, and Dominic Bardos, Civil ActionÂ No.Â 1:23-cv-148-S. Â OnÂ February 26, 2024,Â the court appointed City of Fort Lauderdale General Employeesâ€™ 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 betweenÂ July 21, 2021Â andÂ February 6, 2023.Â On April 26, 2024, lead plaintiff filed an amended complaint, adding Vinod Nimmagadda (the Companyâ€™s Executive Vice President of Corporate Development and New Ventures) as a defendant.Â Lead plaintiff alleges that statements made regarding the Companyâ€™s business, operations, and prospects violated SectionsÂ 10(b), SectionÂ 20(a) and RuleÂ 10b-5Â of the Securities Exchange Act ofÂ 1934Â and seeks class certification, damages, interest, attorneysâ€™ fees, and other relief.Â The Company filed a motion to dismiss on June 28, 2024. Â 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. Â 22 Table of Contents HOLLEY INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share data) (unaudited) Â Product Warranties Â 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. Â 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. Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Beginning balance Â $ 6,046 Â Â $ 3,876 Â Â $ 3,325 Â Â $ 3,584 Â Accrued for current year warranty claims Â Â 2,542 Â Â Â 3,005 Â Â Â 9,289 Â Â Â 9,472 Â Settlement of warranty claims Â Â (2,400) Â Â (2,857) Â Â (6,426) Â Â (9,032) Ending balance Â $ 6,188 Â Â $ 4,024 Â Â $ 6,188 Â Â $ 4,024 Â Â Employee Savings PlansÂ Â 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.Â The Company also has aÂ defined-contribution saving plan for Canada-based employees.Â Canada-based eligible employees may contributeÂ 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 discretionaryÂ match of up to 1.5% is made based on company performance targets.Â Â Â During the 13-week periods ended September 29, 2024 and October 1, 2023, the Company made matching contributions under the savings plansÂ totalingÂ $39Â and $562, respectively.Â During theÂ 39-week periods ended September 29, 2024 and October 1, 2023, the Company made matching contributions under the savings plansÂ totalingÂ $1,168 andÂ $1,702, respectively. The decrease in the Company made matching contributions during theÂ 13-week period ended September 29, 2024 is due to the Company's suspension of the 401(k) match. Â Â 23 Table of Contents Â Â Â Â Item 2. Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations. Â Unless the context requires otherwise, references to â€œHolley,â€ â€œwe,â€ â€œus,â€ â€œourâ€ and â€œthe Companyâ€ 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 Holleyâ€™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 Holleyâ€™s actual results to differ materially from managementâ€™s expectations. Factors that could cause such differences are discussed herein and under the caption, â€œCautionary Note Regarding Forward-Looking Statements.â€ Â Overview Â 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. WeÂ design, market, manufactureÂ and distributeÂ a diversified line of performance automotive products including fuel injection systems, tuners, exhaust products, carburetors, safety equipment and various other performance automotive products. OurÂ products are designed to enhance street, off-road, recreational and competitive vehicle performance and safety.Â Â 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. Â In addition, we have historically used strategic acquisitions toÂ (i) expand our brand portfolio, (ii) enterÂ new product categories and consumer segments, (iii) increaseÂ direct-to-consumer scale and connection, (iv) expand share in current product categories and (v) realizeÂ 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. Â Factors Affecting our Performance Â 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, â€œRisk Factors,â€ in our Annual Report on Form 10-K for the year endedÂ December 31, 2023,Â as filed with the SEC on March 14, 2024, and in our subsequent filings with the SEC. Â Business Environment Â OurÂ business and results of operations, financial condition, and liquidity are impacted by broad economic conditions, as well as by geopolitical events, including the conflict in Ukraine, the conflict in the Middle East, and the possible expansion of such conflicts and potential geopolitical consequences. OurÂ business is impacted by various economic factors that affect both consumers and the automotive industry, including by not limited to inflation, fuel costs, wage rates, supply chain disruptions, hiring, and other economic conditions.Â In response to inflationary impacts and supply chain disruptions, weÂ haveÂ attempted to minimize potential adverse impacts on ourÂ business with cost savings initiatives, price increases to customers, and increased attention toÂ maintaining appropriate inventory levels in the distribution channel. OurÂ 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 increaseÂ our costs.Â Should the ongoing macroeconomic conditions not improve, or worsen, or if ourÂ attemptÂ to mitigate the impact on ourÂ supply chain, operations and costs is not successful, ourÂ business, results of operations and financial condition may be adversely affected. Â Key Components of Results of Operations Â Net Sales Â The principal activity from which weÂ generateÂ sales is the designing, marketing, manufacturing and distribution of performance after-market automotive parts for ourÂ 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. Â 24 Table of Contents Â Cost of Goods Sold Â 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. Â Selling, General, and Administrative Â 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.Â Â Restructuring Costs Â Restructuring costs include charges attributable to operational restructuring and integration activities, including professional and consulting services; termination related benefits;Â facilities relocation; and executive transition costs.Â Â Interest Expense Â Interest expense consists of interest due on the indebtedness under our credit facilities. Interest is based on SOFRÂ or the baseÂ rate, at the Company's election,Â plus the applicable margin rate. As of September 29, 2024, $564.2 millionÂ was outstanding under ourÂ Credit Agreement. Â Â Results of Operations Â 13-Week Period Ended September 29, 2024 Compared With 13-Week Period Ended October 1, 2023 Â The table below presents Holleyâ€™s results of operations for theÂ 13-week periods ended September 29, 2024 and October 1, 2023 (dollars in thousands): Â Â Â For the thirteen weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â Change ($) Â Â Change (%) Â Net sales Â $ 134,038 Â Â $ 156,530 Â Â $ (22,492) Â Â (14.4)% Cost of goods sold Â Â 81,732 Â Â Â 98,156 Â Â Â (16,424) Â Â (16.7)% Gross profit Â Â 52,306 Â Â Â 58,374 Â Â Â (6,068) Â Â (10.4)% Selling, general, and administrative Â Â 30,109 Â Â Â 28,880 Â Â Â 1,229 Â Â Â 4.3 % Research and development costs Â Â 4,620 Â Â Â 6,100 Â Â Â (1,480) Â Â (24.3)% Amortization of intangible assets Â Â 3,436 Â Â Â 3,687 Â Â Â (251) Â Â (6.8)% Restructuring costs Â Â 954 Â Â Â 415 Â Â Â 539 Â Â Â 129.9 % Write-down of assets held-for-sale Â Â 7,505 Â Â Â â€” Â Â Â 7,505 Â Â Â 100.0 % Other operating expense Â Â 119 Â Â Â (28) Â Â 147 Â Â Â n/a Â Operating income Â Â 5,563 Â Â Â 19,320 Â Â Â (13,757) Â Â (71.2)% Change in fair value of warrant liability Â Â (1,041) Â Â 2,064 Â Â Â (3,105) Â Â n/a Â Change in fair value of earn-out liability Â Â (634) Â Â 700 Â Â Â (1,334) Â Â n/a Â Interest expense Â Â 15,010 Â Â Â 13,712 Â Â Â 1,298 Â Â Â 9.5 % Income (loss) before income taxes Â Â (7,772) Â Â 2,844 Â Â Â (10,616) Â Â (373.3)% Income tax expense (benefit) Â Â (1,484) Â Â 2,092 Â Â Â (3,576) Â Â (170.9)% Net income (loss) Â Â (6,288) Â Â 752 Â Â Â (7,040) Â Â (936.2)% Foreign currency translation adjustment Â Â 386 Â Â Â (176) Â Â 562 Â Â Â (319.3)% Total comprehensive income (loss) Â $ (5,902) Â $ 576 Â Â $ (6,478) Â Â (1,124.7)% Â Net Sales Â Net sales for the 13-week period ended September 29, 2024Â decreased $22.5 million, or 14.4%, to $134.0 million, as compared to $156.5 millionÂ for the 13-week period ended October 1, 2023.Â Lower salesÂ volume resulted in a decrease of approximatelyÂ $24.4 million, offset partially by improved price realization of approximately $1.9 millionÂ compared to the prior year period. Major categories driving the comparable year-over-year results includeÂ aÂ decrease inÂ electronic systems sales of $12.3 millionÂ (17.6%Â category decline), a decrease in exhaust sales ofÂ $2.9 millionÂ (20.5%Â category decline), a decrease in mechanical systems sales of $6.1 millionÂ (16.1% category decline) and a decrease in accessories sales of $1.5 millionÂ (6.7%Â category decline).Â Partially offset by an increase in safety sales of $0.3 millionÂ (2.9%Â category incline).Â Â 25 Table of Contents Â Cost of Goods Sold Â Cost of goods sold for the 13-week period ended September 29, 2024Â decreased $16.4 million, or 16.7%, to $81.7 million, as compared to $98.2 millionÂ for the 13-week period ended October 1, 2023. The decrease in cost of goods sold in 2024, a period in which product sales decreased 14.4%, was impacted by lower freight costs and product mix.Â Â Gross Profit and Gross Margin Â Gross profit for the 13-week period ended September 29, 2024 Â decreasedÂ $6.1 million , or 10.4% , to $52.3 million , as compared to $58.4 million Â for the 13-week period ended October 1, 2023 . Gross margin for the 13-week period ended September 29, 2024 Â wasÂ 39.0% Â as compared to a gross margin of 37.3% Â for the 13-week period ended October 1, 2023 . Gross profit margin slightly increased due to our continued efforts to improve operational efficiencies primarily through a combination ofÂ improvements inÂ freight costs, reduced purchasing price variance, warranty improvements and lower write-downs from E&O. Â Selling, General and Administrative Â Selling, general and administrative costs for the 13-week period ended September 29, 2024Â increased $1.2 million, or 4.3%, to $30.1 million, as compared to $28.9 millionÂ for the 13-week period ended October 1, 2023. Selling, general and administrative costs expressed as a percentage of sales increased to 22.5%Â for the 13-week period ended September 29, 2024Â compared to 18.5%Â for the 13-week period ended October 1, 2023. The increase in selling, general and administrative costs was driven by $1.0 million of transformation related non-recurring advisory costs to execute on the strategic transformation initiatives. Â Research and Development Costs Â Research and development costs for the 13-week period ended September 29, 2024Â decreased to $4.6 millionÂ as compared to $6.1 millionÂ for the 13-week period ended October 1, 2023, primarily due to headcount reductions, reflecting the implementation of resource allocation efforts in support ofÂ portfolio development optimization.Â Further, the decrease is due to the Company's realignment of employees' roles and responsibilities from selling, general and administrative to research and development. Â Amortization and Impairment of Intangible Assets Â Amortization of intangible assets was $3.4 millionÂ for the 13-week period ended September 29, 2024Â compared toÂ $3.7 million forÂ theÂ 13-week period ended October 1, 2023.Â Â Restructuring Costs Â Restructuring costs for the 13-week period ended September 29, 2024Â increased byÂ $0.5 millionÂ toÂ $1.0 million, as compared toÂ $0.4 millionÂ for the 13-week period ended October 1, 2023,Â reflectingÂ restructuring and integration activities associated with our implementation of resource allocation efforts in support of portfolio development optimization. Â Write-Down of Assets Held-For-Sale Â Write-down of assets held-for-sale forÂ the 13-week period ended September 29, 2024Â relates to the anticipated sale of Detroit Speed Engineering, reflecting a $7.5 million loss after adjusting the assets from carrying value to fair value.Â For theÂ 13-week period ended September 29, 2024, the Company entered into a definitive purchase agreement to sell Detroit Speed Engineering, and as such in accordance with U.S. GAAP, the Company recognized a write-down of these assets. The sale is expected to close in the fourth quarter of 2024. Â Operating Income Â As a result of factors described above, operating income for the 13-week period ended September 29, 2024Â decreased $13.8 million, or 71.2%, to $5.6 million, as compared to $19.3 millionÂ for the 13-week period ended October 1, 2023. Â Change in Fair Value of Warrant Liability Â For theÂ 13-week period ended September 29, 2024, we recognized a gainÂ of $1.0 millionÂ from the change in fair value of the warrant liability. For theÂ 13-week period ended October 1, 2023, we recognized a lossÂ of $2.1 millionÂ from the change in fair value of the warrant liability, due to our stock price. The warrant liability reflects the fair value of the Warrants issued in connection with the Business Combination. Â Change in Fair Value of Earn-Out Liability Â For theÂ 13-week period ended September 29, 2024, we recognized a gainÂ ofÂ $0.6 millionÂ from the change in fair value of the earn-out liability. For theÂ 13-week period ended October 1, 2023, we recognized a lossÂ of $0.7 million, from the change in fair value of the earn-out liability, due to our stock price. The earn-out liability reflects the fair value of the unvested Earn-Out Shares resulting from the Business Combination.Â Â 26 Table of Contents Â Interest Expense Â Interest expense for the 13-week period ended September 29, 2024Â increased $1.3 million, or 9.5%, to $15.0 million, as compared to $13.7 millionÂ for the 13-week period ended October 1, 2023, reflecting the negative impact of the interest rate collar.Â The Company recognized $2.2 million of interest expense and $1.1 million in interest income related to the interest rate collar for 13-week periods ended September 29, 2024 and October 1, 2023, respectively. Â Income (Loss) before Income Taxes Â As a result of factors described above, we recognized $7.8 millionÂ of loss before income taxes for the 13-week period ended September 29, 2024, as compared to income before income taxes of $2.8 millionÂ for the 13-week period ended October 1, 2023. Â Income Tax Expense (Benefit) Â Income tax benefit for the 13-week period ended September 29, 2024Â wasÂ $1.5 million, as compared to income tax expense ofÂ $2.1 millionÂ for the 13-week period ended October 1, 2023. OurÂ effective tax rate for the 13-week period ended September 29, 2024Â was 19.1%. The difference between the effective tax rate for the 13-week period ended September 29, 2024Â and the federal statutory rate in 2024Â was due toÂ permanent differences related to changes in fair value of the warrant and earn-out liabilities recognized during the periodÂ and the impact of foreign taxes in higher tax rate jurisdictions. TheÂ effective tax rate for the 13-week period ended October 1, 2023Â was 73.6%. The difference between the effective tax rate and the federal statutory rate in 2023Â was primarily due to permanent differences resulting from the change in fair value of the warrant and earn-out liabilities. Â Net Income (Loss) and Total Comprehensive Income (Loss) Â As a result of factors described above, we recognized net loss of $6.3 millionÂ for the 13-week period ended September 29, 2024, as compared to net incomeÂ ofÂ $0.8 millionÂ for the 13-week period ended October 1, 2023. Additionally, we recognized total comprehensive loss of $5.9 millionÂ for the 13-week period ended September 29, 2024, as compared to total comprehensive incomeÂ ofÂ $0.6 millionÂ for the 13-week period ended October 1, 2023. Comprehensive income includes the effect of foreign currency translation adjustments. Â 39-Week Period Ended September 29, 2024 Compared With 39-Week Period Ended October 1, 2023 Â The table below presents Holleyâ€™s results of operations for theÂ 39-week periods ended September 29, 2024 and October 1, 2023 (dollars in thousands): Â Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â Change ($) Â Â Change (%) Â Net sales Â $ 462,170 Â Â $ 503,997 Â Â $ (41,827) Â Â (8.3)% Cost of goods sold Â Â 287,512 Â Â Â 308,162 Â Â Â (20,650) Â Â (6.7)% Gross profit Â Â 174,658 Â Â Â 195,835 Â Â Â (21,177) Â Â (10.8)% Selling, general, and administrative Â Â 97,675 Â Â Â 87,998 Â Â Â 9,677 Â Â Â 11.0 % Research and development costs Â Â 13,743 Â Â Â 18,935 Â Â Â (5,192) Â Â (27.4)% Amortization of intangible assets Â Â 10,307 Â Â Â 11,040 Â Â Â (733) Â Â (6.6)% Restructuring costs Â Â 1,566 Â Â Â 2,106 Â Â Â (540) Â Â (25.6)% Write-down of assets held-for-sale Â Â 7,505 Â Â Â â€” Â Â Â 7,505 Â Â Â 100.0 % Other operating expense Â Â 213 Â Â Â 508 Â Â Â (295) Â Â n/a Â Operating income Â Â 43,649 Â Â Â 75,248 Â Â Â (31,599) Â Â (42.0)% Change in fair value of warrant liability Â Â (7,570) Â Â 5,516 Â Â Â (13,086) Â Â n/a Â Change in fair value of earn-out liability Â Â (2,341) Â Â 2,089 Â Â Â (4,430) Â Â n/a Â Loss on early extinguishment of debt Â Â 141 Â Â Â â€” Â Â Â 141 Â Â Â n/a Â Interest expense Â Â 39,192 Â Â Â 41,909 Â Â Â (2,717) Â Â (6.5)% Income before income taxes Â Â 14,227 Â Â Â 25,734 Â Â Â (11,507) Â Â (44.7)% Income tax expense (benefit) Â Â (320) Â Â 7,756 Â Â Â (8,076) Â Â (104.1)% Net income Â Â 14,547 Â Â Â 17,978 Â Â Â (3,431) Â Â (19.1)% Foreign currency translation adjustment Â Â 244 Â Â Â (103) Â Â 347 Â Â Â (336.9)% Total comprehensive income Â $ 14,791 Â Â $ 17,875 Â Â $ (3,084) Â Â (17.3)% Â Net Sales Â Net sales for theÂ 39-week period ended September 29, 2024 decreasedÂ $41.8 million, orÂ 8.3%, toÂ $462.1 million, as compared toÂ $504.0 millionÂ for the 39-week period ended October 1, 2023.Â Lower salesÂ volume resulted in a decrease of approximatelyÂ $50.2 millionÂ offset partially by improved price realization of approximatelyÂ $8.3 millionÂ compared to the prior year period. Major categories driving the comparable year-over-year results includeÂ aÂ decrease in mechanical systems sales ofÂ $12.2 millionÂ (10.0%Â category decline), a decrease in electronic systems sales ofÂ $20.0 millionÂ (9.4% category decline), a decrease in exhaust sales ofÂ $7.0 millionÂ (14.6%Â category decline), and a decrease in accessories sales ofÂ $7.4 millionÂ (9.9% category decline).Â An increase in safety sales ofÂ $4.8 millionÂ (10.6% category incline) partially offset the decrease in electronic systems, exhaust and accessories sales. Â 27 Table of Contents Â Cost of Goods Sold Â Cost of goods sold for theÂ 39-week period ended September 29, 2024Â decreasedÂ $20.6 million, orÂ 6.7%, toÂ $287.5 million, as compared toÂ $308.1 millionÂ for the 39-week period ended October 1, 2023. The decrease in cost of goods sold in 2024, resulted from aÂ 8.3%Â decrease in product sales and lower freight costs, partiallyÂ offset byÂ $8.8 million of strategic product rationalization charge that is part of a portfolio transformation aimed at eliminating unprofitable or slow-moving stock keeping units ("SKUs").Â Â Gross Profit and Gross Margin Â Gross profit for theÂ 39-week period ended September 29, 2024 decreasedÂ $21.1 million , orÂ 10.8% , toÂ $174.7 million , as compared toÂ $195.8 million Â for the 39-week period ended October 1, 2023 . Gross margin for theÂ 39-week period ended September 29, 2024 wasÂ 37.8% Â as compared to a gross margin ofÂ 38.9% Â for the 39-week period ended October 1, 2023 . Gross profit margin declined primarily due to a strategic product rationalization chargeÂ driven by initiatives, which was partially offset by improvements inÂ freight costs, purchasing price variance, warranty improvements and lower write-downs from E&O.Â Â After adjusting for the $8.8 million of a strategic product rationalization charge , Adjusted Gross Margin for the year wasÂ 39.7% for theÂ 39-week period ended September 29, 2024 compared toÂ 38.7% Â for the 39-week period ended October 1, 2023 .Â Â Selling, General and Administrative Â Selling, general and administrative costs for theÂ 39-week period ended September 29, 2024 increasedÂ $9.6 million, orÂ 11.0%, toÂ $97.7 million, as compared toÂ $88.0 millionÂ for the 39-week period ended October 1, 2023. Selling, general and administrative costs expressed as a percentage of sales increased toÂ 21.1%Â for theÂ 39-week period ended September 29, 2024 compared toÂ 17.5%Â for the 39-week period ended October 1, 2023.Â The increase in selling, general and administrative costs was driven by a $2 million reserve related to litigation settlements, a $3.0 million increase in wages, and $4.5 million ofÂ costs incurred for advisory services related to supporting transformation initiatives. The increase in wages is offset by a reduction in research and development costs due toÂ the Company's realignment of employees' roles and responsibilities from selling, general and administrative to research and development. Â Research and Development Costs Â Research and development costs for theÂ 39-week period ended September 29, 2024 decreased toÂ $13.7 millionÂ as compared toÂ $18.9 millionÂ for the 39-week period ended October 1, 2023, primarily due to headcount reductions, reflecting the implementation of resource allocation efforts in support ofÂ portfolio development optimization.Â Further, the decrease is due to the Company's realignment of employees' roles and responsibilities from selling, general and administrative to research and development. Â Amortization and Impairment of Intangible Assets Â Amortization of intangible assets wasÂ $10.3 millionÂ for theÂ 39-week period ended September 29, 2024 compared toÂ $11.0 millionÂ forÂ the 39-week period ended October 1, 2023.Â Â Restructuring

Costs Â Restructuring costs for theÂ 39-week period ended September 29, 2024 decreased byÂ $0.5 millionÂ toÂ $1.6 million, as compared toÂ $2.1 millionÂ for the 39-week period ended October 1, 2023,Â reflectingÂ a reduction in restructuring and integration activities associated with acquisitions. Â Write-Down of Assets Held-For-Sale Â Write-down of assets held-for-saleÂ forÂ the 39-week period ended September 29, 2024Â relates to the anticipated sale of Detroit Speed Engineering, reflecting a $7.5 million loss after adjusting the assets from carrying value to fair value.Â For theÂ 39-week period ended September 29, 2024, the Company entered into a definitive purchase agreement to sell Detroit Speed Engineering, and as such in accordance with U.S. GAAP, the Company recognized a write-down of these assets. The sale is expected to be completed in the fourth quarter of 2024. Â Operating Income Â As a result of factors described above, operating income for theÂ 39-week period ended September 29, 2024 decreasedÂ $31.6 million, orÂ 42.0%, toÂ $43.7 million, as compared toÂ $75.2 millionÂ for the 39-week period ended October 1, 2023. Â Change in Fair Value of Warrant Liability Â For the 39-week period ended September 29, 2024, we recognized a gainÂ ofÂ $7.6 millionÂ from the change in fair value of the warrant liability. For the 39-week period ended October 1, 2023, we recognized a lossÂ ofÂ $5.5 millionÂ 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. Â Change in Fair Value of Earn-Out Liability Â For the 39-week period ended September 29, 2024, we recognized a gainÂ ofÂ $2.3 millionÂ from the change in fair value of the earn-out liability. For the 39-week period ended October 1, 2023, we recognized a lossÂ ofÂ $2.1 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.Â Â 28 Table of Contents Â Interest Expense Â Interest expense for theÂ 39-week period ended September 29, 2024Â decreasedÂ $2.7 million, orÂ 6.5%, toÂ $39.2 million, as compared toÂ $41.9 millionÂ for the 39-week period ended October 1, 2023, reflecting lower outstanding debt balances,Â offset in part by a higher effective interest rate on outstanding debt. The Company recognized $0.2 million and $3.2 million ofÂ interest income related to the interest rate collar forÂ 39-week periods ended September 29, 2024 and October 1, 2023, respectively. Â Income before Income Taxes Â As a result of factors described above, we recognizedÂ $14.2 millionÂ of income before income taxes for the 39-week period ended September 29, 2024, as compared to income before income taxes ofÂ $25.7 millionÂ for the 39-week period ended October 1, 2023. Â Income Tax Expense (Benefit) Â Income tax benefit for theÂ 39-week period ended September 29, 2024 wasÂ $0.3 million, as compared to income tax expense ofÂ $7.8 millionÂ for the 39-week period ended October 1, 2023. OurÂ effective tax rate for theÂ 39-week period ended September 29, 2024 wasÂ -2.2%. The difference between the effective tax rate for theÂ 39-week period ended September 29, 2024 and the federal statutory rate in 2024Â was due toÂ permanent differences 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 strategicÂ product rationalization charge that were determined to be significant and infrequent in nature, therefore, the full tax benefit of these expenses wasÂ recorded during the year as a discrete adjustment.Â TheÂ effective tax rate for theÂ 39-week period ended October 1, 2023 wasÂ 30.1%. The difference between the effective tax rate and the federal statutory rate in 2023Â was primarily due to permanent differences resulting from the change in fair value of the warrant and earn-out liabilities. Â Net Income and Total Comprehensive IncomeÂ Â As a result of factors described above, we recognized net income ofÂ $14.5 millionÂ for the 39-week period ended September 29, 2024, as compared to net incomeÂ ofÂ $18.0 millionÂ for the 39-week period ended October 1, 2023. Additionally, we recognized total comprehensive income ofÂ $14.8 millionÂ for the 39-week period ended September 29, 2024, as compared to total comprehensive incomeÂ ofÂ $17.9 millionÂ for the 39-week period ended October 1, 2023. Comprehensive income includes the effect of foreign currency translation adjustments. Â Non-GAAP Financial Measures Â We present certain information with respect to EBITDA,Â AdjustedÂ EBITDA, Adjusted EBITDA Margin, Adjusted Gross Profit, Adjusted Gross Margin, Adjusted Net Income, Adjusted Diluted EPS, and Free Cash FlowÂ as supplemental measures of our operating performanceÂ and believe that such non-GAAP financial measures are useful 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. We believe that the presentation of these non-GAAP financial measuresÂ 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 believeÂ that these non-GAAP financial measures help to depict a more realistic representation of the performance of our underlying business, enabling usÂ to evaluate and plan more effectively for the future.Â Â EBITDA,Â Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Gross Profit, Adjusted Gross Margin,Â Adjusted Net Income, Adjusted Diluted EPS, and Free Cash FlowÂ are not prepared in accordance with GAAPÂ 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 ourÂ financial performance. These metrics should not be considered as alternatives to net income, gross profit, net cash provided by operating activities, or any other performance measures, as applicable, derived in accordance with GAAP. Â 29 Table of Contents Â Adjusted EBITDA Â We defineÂ EBITDA as earnings before depreciation, amortization of intangible assets, interest expense, and income tax expense. WeÂ defineÂ 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; strategic product rationalization charges primarily due toÂ initiatives that are part of a portfolio transformation aimed at eliminating unprofitable or slow-moving SKUs; loss on sale of assets; 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;Â and other expenses or gains, which includes gains or losses from disposal of fixed assets, franchise taxes,Â and gains or losses from foreign currency transactions. We define Adjusted EBITDA Margin as Adjusted EBITDA divided by net sales. Â The following unaudited table presents the reconciliation of net income, the most directly comparable GAAP measure, to EBITDA,Â Adjusted EBITDA, and Adjusted EBITDA MarginÂ for theÂ 13-week and 39-week periods ended September 29, 2024 and October 1, 2023 (dollars in thousands): Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Net income Â $ (6,288) Â $ 752 Â Â $ 14,547 Â Â $ 17,978 Â Adjustments: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Depreciation Â Â 2,231 Â Â Â 2,785 Â Â Â 7,364 Â Â Â 7,738 Â Amortization of intangible assets Â Â 3,436 Â Â Â 3,687 Â Â Â 10,307 Â Â Â 11,040 Â Interest expense, net Â Â 15,010 Â Â Â 13,712 Â Â Â 39,192 Â Â Â 41,909 Â Income tax expense Â Â (1,484) Â Â 2,092 Â Â Â (320) Â Â 7,756 Â EBITDA Â Â 12,905 Â Â Â 23,028 Â Â Â 71,090 Â Â Â 86,421 Â Change in fair value of warrant liability Â Â (1,041) Â Â 2,064 Â Â Â (7,570) Â Â 5,516 Â Change in fair value of earn-out liability Â Â (634) Â Â 700 Â Â Â (2,341) Â Â 2,089 Â Equity-based compensation expense Â Â 1,521 Â Â Â 2,970 Â Â Â 4,283 Â Â Â 5,170 Â Strategic product rationalization charge Â Â â€” Â Â Â â€” Â Â Â 8,835 Â Â Â (800) Write-down of assets held-for-sale Â Â 7,505 Â Â Â â€” Â Â Â 7,505 Â Â Â â€” Â Loss on early extinguishment of debt Â Â â€” Â Â Â â€” Â Â Â 141 Â Â Â â€” Â Restructuring costs Â Â 954 Â Â Â 415 Â Â Â 1,566 Â Â Â 2,106 Â Notable items Â Â 785 Â Â Â 556 Â Â Â 6,479 Â Â Â 564 Â Other expense Â Â 119 Â Â Â (28) Â Â 213 Â Â Â 508 Â Adjusted EBITDA Â $ 22,114 Â Â $ 29,705 Â Â $ 90,201 Â Â $ 101,574 Â Net sales Â $ 134,038 Â Â $ 156,530 Â Â $ 462,170 Â Â $ 503,997 Â Net income margin Â Â -4.7 % Â Â 0.5 % Â Â 3.1 % Â Â 3.6 % Adjusted EBITDA Margin Â Â 16.5 % Â Â 19.0 % Â Â 19.5 % Â Â 20.2 % Â Adjusted Gross Profit and Adjusted Gross Margin Â We define adjusted gross profit as gross profit excluding strategic product rationalization charges primarily due toÂ 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.Â Â The following unaudited tableÂ presents the reconciliation of gross profit, the most directly comparable GAAP measure, to Adjusted Gross Profit and Adjusted Gross Margin for theÂ 13-week and 39-week periods ended September 29, 2024 and October 1, 2023 (dollars in thousands): Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Gross profit Â $ 52,306 Â Â $ 58,374 Â Â Â 174,658 Â Â Â 195,835 Â Adjust for: Strategic product rationalization charge Â Â â€” Â Â Â â€” Â Â Â 8,835 Â Â Â (800) Adjusted Gross Profit Â $ 52,306 Â Â $ 58,374 Â Â Â 183,493 Â Â Â 195,035 Â Net sales Â $ 134,038 Â Â $ 156,530 Â Â $ 462,170 Â Â $ 503,997 Â Gross margin Â Â 39.0 % Â Â 37.3 % Â Â 37.8 % Â Â 38.9 % Adjusted Gross Margin Â Â 39.0 % Â Â 37.3 % Â Â 39.7 % Â Â 38.7 % Â 30 Table of Contents Â On October 15, 2024, the Company received a comment letter from the Staff of the SECâ€™s Division of Corporation Finance (the â€œStaffâ€) related to our Annual Report on Form 10-K for the year ended December 31, 2023 and the Quarterly Report on Form 10-Q for the quarter ended June 30, 2024. The Staffâ€™s letter included a comment relating to two of our non-GAAP measures, Adjusted EBITDA and Adjusted Gross Profit, seeking an explanation why the adjustment for inventory charges included in each of those measures does not represent costs that are normal operating costs of the business. We are in the process of preparing a response and intend to work with the Staff to address the comment. If the Staff were to object to our continued inclusion of the adjustment for such inventory charges, the â€œStrategic product rationalization chargeâ€ reported above will be removed from our presentation of Adjusted EBITDA and Adjusted Gross Profit and such measures will decrease accordingly. Â Adjusted Net IncomeÂ and Adjusted Diluted EPS Â We define Adjusted Net Income as earnings excluding the after-tax effect of changes in the fair value of the warrant liability,Â changes in the fair value of the earn-out liability,Â 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 theseÂ measures to focus on on-going operations and believes that it is useful to investors because itÂ enables them to perform meaningful comparisons of past and presentÂ 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. Â The following unaudited tables presentÂ the reconciliation of net income and net income per diluted share, the most directly comparable GAAP measures, to Adjusted Net Income and Adjusted Diluted EPSÂ for theÂ 13-week and 39-week periods ended September 29, 2024 and October 1, 2023 (dollars in thousands): Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Net income Â $ (6,288) Â $ 752 Â Â $ 14,547 Â Â $ 17,978 Â Special items: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Adjust for: Change in fair value of Warrant liability Â Â (1,041) Â Â 2,064 Â Â Â (7,570) Â Â 5,516 Â Adjust for: Change in fair value of earn-out liability Â Â (634) Â Â 700 Â Â Â (2,341) Â Â 2,089 Â Adjust for: Write-down of assets held-for-sale Â Â 7,505 Â Â Â â€” Â Â Â 7,505 Â Â Â â€” Â Adjust for: Loss on early extinguishment of debt Â Â â€” Â Â Â â€” Â Â Â 141 Â Â Â â€” Â Adjusted Net Income (Loss) Â $ (458) Â $ 3,516 Â Â $ 12,282 Â Â $ 25,583 Â Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Net income per diluted share Â $ (0.05) Â $ 0.01 Â Â $ 0.12 Â Â $ 0.15 Â Special items: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Adjust for: Change in fair value of Warrant liability Â Â (0.01) Â Â 0.02 Â Â Â (0.06) Â Â 0.05 Â Adjust for: Change in fair value of earn-out liability Â Â (0.01) Â Â 0.01 Â Â Â (0.02) Â Â 0.02 Â Adjust for: Write-down of assets held-for-sale Â Â 0.06 Â Â Â - Â Â Â 0.06 Â Â Â - Â Adjust for: Loss on early extinguishment of debt Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â â€” Â Adjusted Diluted EPS Â $ (0.01) Â $ 0.04 Â Â $ 0.10 Â Â $ 0.22 Â Â 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 ourÂ performance and results of cash generation after making capital investments required to support ongoing business operations.Â Â The following unaudited tableÂ presents the reconciliation of net cash provided by operating activities, the most directly comparable GAAP measure, to Free Cash Flow for theÂ 13-week and 39-week periods ended September 29, 2024 and October 1, 2023 (dollars in thousands): Â Â Â For the thirteen weeks ended Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Â September 29, 2024 Â Â October 1, 2023 Â Net cash provided by operating activities Â $ (1,748) Â $ 22,480 Â Â $ 42,773 Â Â $ 56,863 Â Capital expenditures Â Â (1,727) Â Â (1,679) Â Â (4,372) Â Â (4,417) Proceeds from the disposal of fixed assets Â Â 1,416 Â Â Â 936 Â Â Â 1,645 Â Â Â 1,292 Â Free Cash Flow Â $ (2,059) Â $ 21,737 Â Â $ 40,046 Â Â $ 53,738 Â Â 31 Table of Contents Â Liquidity and Capital Resources Â OurÂ primary cash needs are to support working capital, capital expenditures, acquisitions, and debt repayments. WeÂ haveÂ generally financed ourÂ 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 ourÂ products, investments made in acquired businesses, plant and equipment and other capital expenditures, and expenditures on general infrastructure and information technology. Â As of September 29, 2024, the Company had cash of $50.8 millionÂ and availability of $122.8 millionÂ under its revolving credit facility. The Company has a senior secured revolving credit facility with $125 million in borrowing capacity. As of September 29, 2024, the Company had $2.2 millionÂ inÂ letters of credit outstanding under the revolving credit facility.Â 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 increasedÂ the Total Leverage Ratio applicable under the Credit Agreement as of the fiscal quarter ending April 2, 2023,Â to initially 7.25:1.00, andÂ provides for modified step-down levels for such covenant thereafter through the fiscal quarter ending June 30, 2024. During theÂ 39-week period ended September 29, 2024, the Company successfully exited the Covenant Relief Period. Â The Company is obligated under various operating leases for facilities, equipment and automobiles with estimated lease payments of approximately $1.6Â million, including short term leases, due during the remainder of fiscal year 2024. See Note 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 Companyâ€™s lease obligations. Â 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 $6Â million to $8Â million in fiscal year 2024. Â See Note 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 September 29, 2024, based on the then current weighted average interest rate of 9.1%, expected interest payments associated with outstanding debt totaled approximately $13.1 millionÂ for the remainder of fiscal year 2024.Â Â As discussed under â€œBusiness Environmentâ€ 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 forÂ the next 12Â months and thereafter for the foreseeable future. Â 32 Table of Contents Â Cash Flows Â The following table provides a summary of cash flows from operating, investing, and financing activities for the periods presentedÂ (dollars in thousands): Â 39-week period ended September 29, 2024 Compared With 39-week period ended October 1, 2023 Â Â Â For the thirty-nine weeks ended Â Â Â September 29, 2024 Â Â October 1, 2023 Â Cash flows provided by operating activities Â $ 42,773 Â Â $ 56,863 Â Cash flows used in investing activities Â Â (2,727) Â Â (3,125) Cash flows used in financing activities Â Â (30,314) Â Â (42,998) Effect of foreign currency rate fluctuations on cash Â Â (62) Â Â (57) Net increase in cash and cash equivalents Â $ 9,670 Â Â $ 10,683 Â Â Operating Activities. Net cash provided byÂ operating activities for the 39-week period ended September 29, 2024Â was $42.8 millionÂ compared to net cash provided by operating activities ofÂ $56.9 millionÂ forÂ the 39-week period ended October 1, 2023. Significant changes in the year-over-year change in working capital activity included negative fluctuations in inventories ofÂ $23.4 million. Partially offsetting the decrease was a positive fluctuation fromÂ accounts payable ofÂ $14.4 million.Â The changeÂ in inventoryÂ reflects the impact ofÂ fluctuations in sales while changes in accounts payableÂ areÂ impacted by the timing of payments. Â Investing Activities. Cash used in investing activities for theÂ 39-week periods ended September 29, 2024 and October 1, 2023Â wereÂ $2.7 millionÂ andÂ $3.1 million, respectively, due to capital expenditures. Â Financing Activities. Cash used in financing activities for the 39-week period ended September 29, 2024Â was $30.3 million, which primarily reflects $28.8Â million in principal payments on long-term debt.Â The principal payments of long-term debt during the 39-week period ended September 29, 2024 includeÂ the repurchase of $25.0Â million outstanding principal on theÂ first lien term loan.Â Cash used in financing activities for theÂ 39-week period ended October 1, 2023Â was $43.0 million, which primarily reflects principal payments on long-term debt and deferred financing fees. Â Critical Accounting Estimates Â 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 â€œCritical Accounting Estimatesâ€ in our Annual Report on Form 10-K for the year endedÂ December 31, 2023, as filed with the SEC on March 14, 2024. For further information see also Note 1, â€œDescription of the Business, Basis of Presentation, and Summary of Significant Accounting Policiesâ€ in the Notes to the Condensed Consolidated

Financial Statements included in this Quarterly Report on Form 10-Q.Â There have been no material changes to the Companyâ€™s critical accounting estimates included in our Annual Report on Form 10-K for the year endedÂ December 31, 2023. Â Recent Accounting Pronouncements Â For a discussion of Holleyâ€™s new or recently adopted accounting pronouncements, see Note 1, â€œDescription of the Business, Basis of Presentation, and Summary of Significant Accounting Policies,â€ in the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. Â 33 Table of Contents Â Â Item 3. Quantitative and Qualitative Disclosures about Market Risk Â Interest Rate Risk. Holley is exposed to market risk in the normal course of business due to the Companyâ€™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 Companyâ€™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'sÂ interest rate collarÂ is intended to mitigate some of the effects of increases in interest rates. As of September 29, 2024, a total of $564.2 millionÂ of term loan and revolver borrowings were subject to variable interest rates, with a weighted average borrowing rate of 9.1%.Â A hypothetical 100 basis point increase in interest rates would result in an approximately $0.6 millionÂ increase in annual interest expense, while a hypothetical 100 basis point decrease in interest rates would result in an approximately $4.1 millionÂ decrease to Holleyâ€™s annual interest expense. Â Credit and other Risks. Holley is exposed to credit risk associated with cash and cash equivalents and trade receivables. As of September 29, 2024, the majority of the Companyâ€™s cash and cash equivalents consisted of cash balances in an overnight sweep account where funds are transferred to an interest-bearing depositÂ 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 Companyâ€™s trade receivables. To manage exposure to such risks, Holley performs ongoing credit evaluations of the Companyâ€™s customers and maintains an allowance for potential credit losses. Â Exchange Rate Sensitivity. As of September 29, 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 Companyâ€™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, Holleyâ€™s primary exposure has been related to transactions denominated in the EuroÂ and Canadian dollars. The majority of the Companyâ€™s sales, both domestically and internationally, are denominated in U.S. Dollars. Historically, the majority of the Companyâ€™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. Â Item 4. Controls and Procedures. Â Based on an evaluation under the supervision and with the participation of the Companyâ€™s management, the Companyâ€™s Chief Executive Officer and Chief Financial Officer have concluded that the Companyâ€™s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of September 29, 2024Â 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)Â recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii)Â accumulated and communicated to the Companyâ€™s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Â Changes in Internal Control over Financial Reporting Â 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. Â 34 Table of Contents Â Part II - Other Information Â Item 1. Legal Proceedings Â See Litigation in Note 15Â â€œCommitments and Contingenciesâ€ to the Condensed Consolidated Financial Statements, whichÂ is incorporated by referenceÂ in this Item 1. Legal Proceedings. Â Item 1A. Risk Factors Â 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 â€œRisk Factorsâ€ included in our Annual Report on Form 10-K for the year endedÂ December 31, 2023, as filed with the SEC on 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. Â Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Â None. Â Item 3. Defaults Upon Senior Securities Â None. Â Item 4. Mine Safety Disclosures Â Not applicable. Â Â Item 5. Other Information Â Trading Plans Â During the fiscal quarter ended September 29, 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). Â 35 Table of Contents Â Â Item 6. Exhibits Â Exhibit No. Â Description 2.1 Â 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 Companyâ€™s Current Report on Form 8-K, filed with the SEC on March 12, 2021). 3.1 Â Certificate of Incorporation of the Company, dated July 16, 2021 (incorporated by reference to Exhibit 3.1 of the Companyâ€™s Current Report on Form 8-K, filed with the SEC on July 21, 2021). 3.2 Â Amended and Restated By-Laws of the Company, dated August 8, 2023Â (incorporated by reference to Exhibit 3.1Â of the Companyâ€™s Current Report on Form 8-K, filed with the SEC on August 9, 2023). 31.1 Â Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act 31.2 Â Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act 32.1 Â 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 Â 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 Â 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 Â Inline XBRL Taxonomy Extension Schema Document 101.CAL Â Inline XBRL Taxonomy Extension Calculation Linkbase Document 101.DEF Â Inline XBRL Taxonomy Extension Definition Linkbase Document 101.LAB Â Inline XBRL Taxonomy Extension Label Linkbase Document 101.PRE Â Inline XBRL Taxonomy Extension Presentation Linkbase Document 104 Â Cover Page Interactive Data File (embedded within the Inline XBRL Document and include in Exhibit 101) Â Â 36 Table of Contents Â SIGNATURES Â 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. Â Holley Inc. Â /s/ Jesse Weaver Jesse Weaver Chief Financial Officer (Duly Authorized Officer) Â November 8, 2024 Â 37 0001437749-24-034047ex_714969.htm Exhibit 31.1Â CERTIFICATIONSÂ I, Matthew Stevenson, certify that:Â 1. I have reviewed this quarterly report on Form 10-Q of Holley Inc.;Â 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;Â 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;Â 4. The registrant'sÂ 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:Â 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;Â 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;Â c) Evaluated the effectiveness of the registrant'sÂ 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; andÂ d) Disclosed in this report any change in the registrant'sÂ internal control over financial reporting that occurred during the registrant'sÂ most recent fiscal quarter (the registrant'sÂ fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant'sÂ internal control over financial reporting; andÂ 5. The registrant'sÂ other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant'sÂ auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):Â 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'sÂ ability to record, process, summarize and report financial information; andÂ b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant'sÂ internal control over financial reporting.Â /s/ Matthew Stevenson Matthew Stevenson President and Chief Executive Officer Â November 8, 2024 Â Â 0001437749-24-034047ex_714970.htm Exhibit 31.2Â CERTIFICATIONSÂ I, Jesse Weaver, certify that:Â 1. I have reviewed this quarterly report on Form 10-Q of Holley Inc.;Â 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;Â 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;Â 4. The registrant'sÂ 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:Â 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;Â 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;Â c) Evaluated the effectiveness of the registrant'sÂ 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; andÂ d) Disclosed in this report any change in the registrant'sÂ internal control over financial reporting that occurred during the registrant'sÂ most recent fiscal quarter (the registrant'sÂ fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant'sÂ internal control over financial reporting; andÂ 5. The registrant'sÂ other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant'sÂ auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):Â 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'sÂ ability to record, process, summarize and report financial information; andÂ b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant'sÂ internal control over financial reporting.Â /s/ Jesse Weaver Jesse Weaver Chief Financial Officer Â November 8, 2024 Â Â div> 0001437749-24-034047ex_714971.htm Exhibit 32.1Â CERTIFICATIONS PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002(18 U.S.C. SECTION 1350)Â InÂ connection with the Quarterly Report of Holley Inc. (the "Company") on Form 10-Q for the period ended September 29, 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:Â (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; andÂ (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.Â Â Â /s/ Matthew Stevenson MatthewÂ Stevenson President and Chief Executive Officer Â November 8, 2024 Â Â Â 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.Â Â 0001437749-24-034047ex_714972.htm Exhibit 32.2Â CERTIFICATIONS PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002(18 U.S.C. SECTION 1350)Â InÂ connection with the Quarterly Report of Holley Inc. (the "Company") on Form 10-Q for the period ended September 29, 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:Â (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; andÂ (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.Â Â Â /s/ Jesse Weaver Jesse Weaver Chief Financial Officer Â November 8, 2024 Â Â Â 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.Â Â