

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

FORM 10-Q

(MARK ONE)

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

For the quarter ended September 30, 2024

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

For the transition period from to

Commission file number: 001-40014

ALLIANCE ENTERTAINMENT HOLDING CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

85-2373325

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

**8201 Peters Road, Suite 1000
Plantation, FL 33324**

(Address of principal executive offices)

(954) 255-4000

(Issuer's telephone number)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Class A common stock, par value \$0.0001 per share | AENT | The Nasdaq Stock Market LLC |
| Redeemable warrants, exercisable for shares of Class A common stock at an exercise price of \$11.50 per share | AENTW | The Nasdaq Stock Market LLC |

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

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

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

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

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

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

As of November 12, 2024, 50,957,370 shares of Class A common stock, par value \$ 0.0001 per share and 60,000,000 contingent¹ shares of Class E common stock, par value \$0.0001 per share, were issued and outstanding.

¹ The 60 million Class E shares are set aside in an escrow account as additional consideration contingent on triggering events occurring within 10 years after the Merger

ALLIANCE ENTERTAINMENT HOLDING CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2024
TABLE OF CONTENTS

| | Page |
|--|------|
| Part I. Financial Information | 1 |
| Item 1. Consolidated Financial Statements | 1 |
| Condensed Consolidated Balance Sheets as of September 30, 2024 (Unaudited) and June 30, 2024 | 1 |

| | | |
|----------|---|----|
| | Condensed Consolidated Statements of Operations (Unaudited) for the Three Months Ended September 30, 2024 and 2023 | 2 |
| | Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Three Months Ended September 30, 2024 and 2023 | 3 |
| | Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended September 30, 2024 and 2023 | 5 |
| | Notes to Condensed Consolidated Financial Statements (Unaudited) | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 28 |
| Item 4. | Controls and Procedures | 29 |
| | Part II. Other Information | 30 |
| Item 1. | Legal Proceedings | 30 |
| Item 1A. | Risk Factors | 30 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 30 |
| Item 3. | Defaults Upon Senior Securities | 30 |
| Item 4. | Mine Safety Disclosures | 30 |
| Item 5. | Other Information | 30 |
| Item 6. | Exhibits | 31 |
| | Part III. Signatures | 32 |

[Table of Contents](#)

PART I - FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements.

**ALLIANCE ENTERTAINMENT HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS**

| (\$ in thousands) | September 30, 2024 (Unaudited) | June 30, 2024 |
|---|-----------------------------------|---------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 4,290 | \$ 1,129 |
| Trade Receivables, Net | 102,411 | 92,357 |
| Inventory, Net | 138,488 | 97,429 |
| Other Current Assets | 6,451 | 5,298 |
| Total Current Assets | 251,640 | 196,213 |
| Property and Equipment, Net | 12,526 | 12,942 |
| Operating Lease Right-of-Use Assets | 21,374 | 22,124 |
| Goodwill | 89,116 | 89,116 |
| Intangibles, Net | 12,549 | 13,381 |
| Other Long-Term Assets | 955 | 503 |
| Deferred Tax Asset, Net | 7,500 | 6,533 |
| Total Assets | \$ 395,660 | \$ 340,812 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts Payable | \$ 176,253 | \$ 133,221 |
| Accrued Expenses | 6,091 | 9,371 |
| Current Portion of Operating Lease Obligations | 2,192 | 1,979 |
| Current Portion of Finance Lease Obligations | 2,892 | 2,838 |
| Contingent Liability | 511 | 511 |
| Total Current Liabilities | 187,939 | 147,920 |
| Revolving Credit Facility, Net | 85,423 | 69,587 |
| Finance Lease Obligation, Non- Current | 4,270 | 5,016 |
| Operating Lease Obligations, Non-Current | 19,714 | 20,413 |
| Shareholder Loan (subordinated), Non-Current | 10,000 | 10,000 |
| Warrant Liability | 288 | 247 |
| Total Liabilities | 307,634 | 253,183 |
| Commitments and Contingencies (Note 12) | | |
| Stockholders' Equity | | |
| Preferred Stock: Par Value \$0.0001 per share, Authorized 1,000,000 shares, Issued and Outstanding 0 shares as of September 30, 2024, and June 30, 2024 | — | — |
| Common Stock: Par Value \$0.0001 per share, Authorized 550,000,000 shares at September 30, 2024, and at June 30, 2024; Issued and Outstanding 50,957,370 Shares as of September 30, 2024, and June 30, 2024 | 5 | 5 |
| Paid In Capital | 48,058 | 48,058 |
| Accumulated Other Comprehensive Loss | (79) | (79) |
| Retained Earnings | 40,042 | 39,645 |
| Total Stockholders' Equity | 88,026 | 87,629 |
| Total Liabilities and Stockholders' Equity | \$ 395,660 | \$ 340,812 |

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

[Table of Contents](#)

**ALLIANCE ENTERTAINMENT HOLDING CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| (\$ in thousands except share and per share amounts) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|--|--|--|
| Net Revenues | \$ 228,990 | \$ 226,755 |
| Cost of Revenues (excluding depreciation and amortization) | 203,455 | 200,501 |
| Operating Expenses | | |

| | | |
|--|---------------|----------------|
| Distribution and Fulfillment Expense | 9,018 | 11,714 |
| Selling, General and Administrative Expense | 13,145 | 14,439 |
| Depreciation and Amortization | 1,258 | 1,641 |
| Restructuring Cost | 50 | 47 |
| Gain on Disposal of Fixed Assets | (15) | — |
| Total Operating Expenses | 23,456 | 27,841 |
| Operating Income (Loss) | 2,079 | (1,587) |
| Other Expenses | | |
| Interest Expense, Net | 2,839 | 3,140 |
| Total Other Expenses | 2,839 | 3,140 |
| Loss Before Income Tax Benefit | (760) | (4,727) |
| Income Tax Benefit | (1,157) | (1,265) |
| Net Income (Loss) | 397 | (3,462) |
| Net Income (Loss) per Share – Basic and Diluted | \$ 0.01 | \$ (0.07) |
| Weighted Average Common Shares Outstanding – Basic | 50,957,370 | 50,502,170 |
| Weighted Average Common Shares Outstanding – Diluted | 50,965,970 | 50,502,170 |

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

2

[Table of Contents](#)

Alliance Entertainment Holding Corporation
Condensed Consolidated Statements of Changes in Stockholders' Equity
Three Months Ended September 30, 2024 (unaudited)

| (\$ in thousands) | Common Stock Shares Issued | Par Value | Paid In Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|---------------------------------------|-------------------------------------|-------------|--------------------|---|----------------------|------------------|
| Balances at June 30, 2024 | 50,957,370 | \$ 5 | \$ 48,058 | \$ (79) | \$ 39,645 | \$ 87,629 |
| Net Income | — | — | — | — | 397 | 397 |
| Balances at September 30, 2024 | 50,957,370 | \$ 5 | \$ 48,058 | \$ (79) | \$ 40,042 | \$ 88,026 |

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

3

[Table of Contents](#)

Alliance Entertainment Holding Corporation
Condensed Consolidated Statements of Changes in Stockholders' Equity
Three Months Ended September 30, 2023 (unaudited)

| (\$ in thousands) | Common Stock Shares Issued | Par Value | Paid In Capital | Accumulated Other Comprehensive (Loss) | Retained Earnings | Total |
|--|-------------------------------------|-------------|--------------------|---|----------------------|------------------|
| Balances at June 30, 2023 | 49,167,170 | \$ 5 | \$ 44,542 | \$ (77) | \$ 35,064 | \$ 79,534 |
| Issuance of Common Stock, net of transaction cost of \$1.9 million | 1,335,000 | — | 1,332 | — | — | 1,332 |
| Stock-based Compensation Expense | — | — | 1,328 | — | — | 1,328 |
| Net loss | — | — | — | — | (3,462) | (3,462) |
| Balances at September 30, 2023 | 50,502,170 | \$ 5 | \$ 47,202 | \$ (77) | \$ 31,602 | \$ 78,732 |

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

4

[Table of Contents](#)

ALLIANCE ENTERTAINMENT HOLDING CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (\$ in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|---|--|--|
| Cash Flows from Operating Activities: | | |
| Net Loss | \$ 397 | \$ (3,462) |
| Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities: | | |
| Depreciation of Property and Equipment | 426 | 590 |
| Amortization of Intangible Assets | 832 | 1,051 |
| Amortization of Deferred Financing Costs (Included in Interest) | 351 | 42 |
| Bad Debt Expense | 302 | 87 |
| Deferred Income Taxes | (967) | — |
| Stock-based Compensation Expense | — | 1,328 |
| Gain on Disposal of Fixed Assets | (15) | — |
| Changes in Assets and Liabilities, Net of Acquisitions | | |
| Trade Receivables | (10,341) | 11,348 |
| Inventory | (41,060) | (12,669) |
| Income Taxes Payable\Receivable | (424) | (1,233) |
| Operating Lease Right-of-Use Assets | 750 | 884 |
| Operating Lease Obligations | (486) | (971) |
| Other Assets | (1,176) | 1,142 |

| | | |
|--|-----------------|-----------------|
| Accounts Payable | 43,032 | 3,123 |
| Accrued Expenses | (3,243) | (3,999) |
| Net Cash Used in Operating Activities | (11,622) | (2,739) |
| Cash Flows from Investing Activities: | | |
| Capital Expenditures | (10) | — |
| Net Cash Provided by Investing Activities | (10) | — |
| Cash Flows from Financing Activities: | | |
| Payments on Revolving Credit Facility | (201,660) | (260,259) |
| Borrowings on Revolving Credit Facility | 217,144 | 252,621 |
| Proceeds from Shareholder Note (Subordinated), Current | — | 46,000 |
| Payments on Shareholder Note (Subordinated), Current | — | (36,000) |
| Issuance of common stock, net of transaction costs | — | 1,332 |
| Payments on Financing Leases | (691) | (595) |
| Net Cash Provided by Financing Activities | 14,793 | 3,099 |
| Net Increase in Cash | 3,161 | 360 |
| Net Effect of Currency Translation on Cash | — | — |
| Cash, Beginning of the Period | 1,129 | 865 |
| Cash, End of the Period | \$ 4,290 | \$ 1,225 |
| Supplemental disclosure for Cash Flow Information | | |
| Cash Paid for Interest | \$ 2,975 | \$ 3,140 |
| Cash Paid for Income Taxes | \$ 234 | \$ 44 |
| Supplemental Disclosure for Non-Cash Investing Activities | | |
| Fixed Asset Financed with Debt | \$ 7,161 | \$ — |

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

[Table of Contents](#)

ALLIANCE ENTERTAINMENT HOLDING CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

Note 1: Organization and Summary of Significant Accounting Policies

Alliance Entertainment Holding Corporation ("Alliance") was formed on August 9, 2010. The Company provides full-service distribution of pre-recorded music, video movies, video games and related accessories, and merchandising to retailers and other independent customers primarily in the United States. It provides product and commerce solutions to "brick-and-mortar," e-commerce retailers, and consumer direct websites, while maintaining trading relationships with manufacturers of pre-recorded music, video movies, video games and related accessories. The Company also provides third party logistics (3PL) products and services to customers.

On February 10, 2023, Alliance, Adara Acquisition Corp. ("Adara") and a Merger Sub consummated the closing of the transactions contemplated by a Business Combination Agreement. Pursuant to the terms of the Business Combination Agreement, a business combination of Legacy Alliance (Alliance Entertainment Holding Corporation pre-Merger, as defined below) and Adara was affected by the merger of Merger Sub with and into Alliance (the "Merger" or the "Business Combination"), with Alliance surviving the Merger as a wholly-owned subsidiary of Adara. Following the consummation of the Merger on the closing date, Adara changed its name from Adara Acquisition Corp. to Alliance Entertainment Holding Corporation (the "Company").

Pursuant to the Business Combination Agreement, Adara exchanged (i) 47,500,000 shares of Class A common stock of Adara to holders of common stock of Legacy Alliance and (ii) 60,000,000 shares of Class E common stock of Adara to the Legacy Alliance stockholders were placed in an escrow account to be released to such Legacy Alliance stockholders and converted into Class A common stock upon the occurrence of certain triggering events.

Consolidated financial statements are presented for Alliance Entertainment Holding Corporation and business operations are conducted through seven subsidiaries. The Company's corporate offices are headquartered in Plantation, FL, with primary warehouse facilities located in Shepherdsville, KY and Shakopee, MN.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company. All material intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements. Accordingly, the accompanying unaudited condensed consolidated financial statements do not include certain information and footnotes required by GAAP for complete financial statements.

The accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals and adjustments) which are necessary in order to state fairly the Company's results of operations, financial position, stockholders' equity and cash flows as of and for the periods presented. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any other future period. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes, including the Summary of Significant Accounting Policies, included in the Company's Annual Report on Form 10-K filed September 20, 2024. June 30, 2024, balance sheet information contained herein was derived from the Company's audited consolidated financial statements as of that date included therein.

Basis for Presentation

The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions made may not prove to be correct, and actual results could differ from the estimates.

[Table of Contents](#)

Significant estimates inherent in the preparation of the accompanying condensed unaudited consolidated financial statements include management's estimates of sales returns, warrants fair value, rebates, inventory valuation, and inventory recoverability. On an ongoing basis, management evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

Liquidity

On December 21, 2023, the Company secured a new three-year \$120 million credit facility, replacing the Revolver (see Note 8). Additionally, the Company has implemented certain strategic initiatives to reduce expenses and focus on the sale of higher margin products. As a result of the new credit facility, combined with these initiatives and the Company's financial performance for the three months ended September 30, 2024, the Company has concluded that it has sufficient cash to fund its operations and obligations (from its cash on hand, operations, working capital and availability on the credit facility) for at least twelve months from the issuance of these consolidated financial statements.

Concentration of Credit Risk

Concentration of Credit Risk consists of the following at:

Customers:

| Revenue | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|-------------|--|--|
| Customer #1 | 17.4% | 18.5% |
| Customer #2 | 13.5% | 13.4% |
| Customer #3 | 10.5% | 11.9% |

| Receivables | September 30, 2024 | June 30, 2024 |
|-------------|--------------------|---------------|
| Customer #1 | 20.3% | 20.2% |
| Customer #2 | * | 12.3% |

*Less than 10%

Suppliers:

| Purchases | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|-------------|--|--|
| Supplier #1 | 20.4% | 20.1% |
| Supplier #2 | 12.0% | 15.6% |
| Supplier #3 | 11.1% | 12.6% |

| Payables | September 30, 2024 | June 30, 2024 |
|-------------|--------------------|---------------|
| Supplier #1 | 14.7% | 15.8% |
| Supplier #2 | * | 12.3% |
| Supplier #3 | * | 10.6% |

[Table of Contents](#)

Accounting Pronouncements

Recently Issued but Not Yet Adopted Accounting Pronouncements

Accounting Standard Update 2024-03, In 2024, Income Statement—Reporting Comprehensive Income. The Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. This ASU provides guidance on the disaggregation of income statement expenses, aiming to enhance the transparency of financial reporting by requiring more detailed disclosures of expense categories. This ASU is effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its financial statements to determine the potential effect on its financial reporting and disclosures.

Accounting Standard Update 2024-02, In 2024, Codification Improvements—Amendments to Remove References to the Concepts Statements. The Financial Accounting Standards Board (FASB) issued ASU 2024-02, which updates accounting standards for revenue recognition (ASC 606), lease accounting (ASC 842), and impairment of long-lived assets (ASC 360). The ASU provides enhanced guidance for estimating variable consideration, accounting for contract modifications, determining lease terms, and simplifying impairment testing for long-lived assets. It also introduces increased disclosure requirements for financial instruments and derivatives. ASU 2024-02 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its financial statements.

Accounting Standard Update 2024-01 In 2024, Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards. The Financial Accounting Standards Board (FASB) issued ASU 2024-01, which introduces updates to accounting standards related to the classification and measurement of financial instruments under ASC 320. The update primarily focuses on clarifying guidance for equity securities, debt instruments, and other financial assets, particularly in the areas of fair value measurement and impairment recognition. It aims to improve consistency and comparability in the reporting of financial instruments by refining the criteria for classifying securities and enhancing the methodology for recognizing and measuring impairments. ASU 2024-01 also mandates additional disclosures to provide greater transparency around the valuation techniques and assumptions used in determining the fair value of financial instruments. The update is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its financial statements and disclosures.

Accounting Standard Update 2023-09, Improvements to Income Tax Disclosures ("ASU 2023-09"). In December 2023, the FASB issued ASU 2023-09, which requires more detailed income tax disclosures. The guidance requires entities to disclose disaggregated information about their effective tax rate reconciliation as well as expanded information on income taxes paid by jurisdiction. The disclosure requirements will be applied on a prospective basis, with the option to apply them retrospectively. The standard is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. We are evaluating the disclosure requirements related to the new standard.

Accounting Standard Update 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). In November 2023, the FASB issued ASU 2023-07, which is intended to improve reportable segment disclosure requirements, primarily through additional disclosures about significant segment expenses. The standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments should be applied retrospectively to all prior periods presented in the financial statements. We are evaluating the disclosure requirements related to the new standard.

Note 2: Summary of Significant Accounting Policies

There have been no material changes or updates to the Company's significant accounting policies from those described in Note 1 to the Company's

[Table of Contents](#)*Earnings per Share*

Basic Earnings Per Share ("EPS") is computed by dividing net income available to common shareholders by the weighted average shares outstanding during the period. Diluted EPS takes into account the potential dilution that could occur if securities or other contracts to issue shares, such as stock options, warrants, and unvested restricted stock units, were exercised and converted into common shares and the impact would not be antidilutive. Diluted EPS is computed by dividing net income available to common shareholders by the weighted average shares outstanding during the period, increased by the number of additional shares that would have been outstanding if the potential shares had been issued and were dilutive. Contingently issuable shares are included in basic net loss per share only when there is no circumstance under which those shares would not be issued.

As a result of the Merger (see Note 16), the Company has retroactively adjusted the weighted average shares outstanding prior to February 10, 2023, to give effect to the Exchange Ratio used to determine the number of shares of Class A Common Stock into which they were converted.

The following table sets forth the computation of basic and diluted net earnings (loss) per share of Class A Common Stock for the three months ended September 30, 2024, and 2023:

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|---|--|--|
| Net Income (Loss) (in thousands) | \$ 397 | \$ (3,462) |
| Basic and diluted shares | | |
| Weighted-average Class A Common Stock outstanding (basic) | 50,957,370 | 50,502,170 |
| Weighted-average Class A Common Stock outstanding (diluted) | 50,965,970 | 50,502,170 |
| Earnings (Loss) per share for Class A Common Stock | | |
| — Basic and Diluted | \$ 0.01 | \$ (0.07) |

For the three months ended September 30, 2024 and 2023 there are 60,000,000 shares of contingently issuable Class A Common Stock that were not included in the computation of basic or diluted earnings (loss) per share since the contingencies for the issuance of these shares have not been met and 9,920,090 warrants outstanding shares have been excluded from diluted earnings per share because they are anti-dilutive. For the three months ending September 30, 2023, 260,000 restricted shares were excluded from diluted earnings per share because they were anti-dilutive.

Note 3: Trade Receivables, Net

Trade Receivables, Net consists of the following at:

| (\$ in thousands) | September 30, 2024 | June 30, 2024 |
|--------------------------------------|--------------------|---------------|
| Trade Receivables | \$ 104,819 | \$ 93,827 |
| Less: | | |
| Allowance for Credit Losses | (739) | (648) |
| Sales Returns Reserve, Net | (950) | (1,064) |
| Customer Rebate and Discount Reserve | (719) | 242 |
| Total Allowances | (2,408) | (1,470) |
| Trade Receivables, Net | \$ 102,411 | \$ 92,357 |

[Table of Contents](#)**Note 4: Inventory, Net**

Inventory, Net (all finished goods) consists of the following at:

| (\$ in thousands) | September 30, 2024 | June 30, 2024 |
|-------------------|--------------------|---------------|
| Inventory | \$ 145,392 | \$ 105,749 |
| Less: Reserves | (6,904) | (8,320) |
| Inventory, Net | \$ 138,488 | \$ 97,429 |

Note 5: Other Current and Long-Term Assets

Other Current and Long-Term Assets consist of the following at:

| (\$ in thousands) | September 30, 2024 | June 30, 2024 |
|----------------------------------|--------------------|---------------|
| Other Assets—Current | | |
| Prepaid Intellectual Property | \$ 3,350 | \$ 2,628 |
| Prepaid Insurance | 250 | 183 |
| Prepaid Acquisitions | - | 55 |
| Prepaid Catalogs | 184 | 310 |
| Prepaid Manufacturing Components | 20 | - |
| Prepaid Maintenance | 663 | 795 |
| Prepaid Inventory | 559 | 559 |
| Prepaid Shipping Supplies | 1,425 | 768 |
| Total Other Assets—Current | \$ 6,451 | \$ 5,298 |
| Other Long-Term Assets | | |
| Deposits | \$ 654 | \$ 273 |
| Income tax receivable | 301 | 230 |
| Total Other Long-Term Assets | \$ 955 | \$ 503 |

Note 6: Property and Equipment, Net

Property and Equipment, Net consists of the following at:

| (\$ in thousands) | September 30, 2024 | June 30, 2024 |
|---|--------------------|---------------|
| Property and Equipment | | |
| Leasehold Improvements | \$ 908 | \$ 908 |
| Machinery and Equipment | 30,500 | 30,490 |
| Furniture and Fixtures | 1,717 | 1,717 |
| Capitalized Software | 10,377 | 10,377 |
| Equipment Under Capital Leases | 12,488 | 12,488 |
| Computer Equipment | 1,757 | 1,757 |
| | 57,747 | 57,737 |
| Less: Accumulated Depreciation and Amortization | (45,221) | (44,795) |
| Total Property and Equipment, Net | \$ 12,526 | \$ 12,942 |

Depreciation Expense for the three months ended September 30, 2024, and 2023 was \$ 0.4 million and \$0.6 million, respectively.

10

[Table of Contents](#)

Note 7: Goodwill and Intangibles, Net

| (\$ in thousands) | September 30, 2024 | June 30, 2024 |
|-------------------------------------|--------------------|---------------|
| Goodwill, beginning of period | \$ 89,116 | \$ 89,116 |
| Additions from business acquisition | — | — |
| Goodwill, end of period | \$ 89,116 | \$ 89,116 |

Intangibles, Net consists of the following at:

| (\$ in thousands) | Year ended September 2024 | | | Year Ended June 2024 | |
|------------------------------|---------------------------|---------------------|------------------|----------------------|------------------|
| | Intangibles Cost | Accum. Amortization | Intangibles, Net | Accum. Amortization | Intangibles, Net |
| Intangibles: | | | | | |
| Customer Relationships | \$ 78,000 | (72,497) | \$ 5,503 | (72,019) | \$ 5,981 |
| Mecca Customer Relationships | \$ 8,023 | (5,961) | \$ 2,062 | (5,818) | \$ 2,205 |
| Customer List | \$ 12,760 | (7,776) | \$ 4,984 | (7,565) | \$ 5,195 |
| Total | \$ 98,783 | (86,234) | \$ 12,549 | (85,402) | \$ 13,381 |

During the three months ending September 30, 2024, and 2023, the Company recorded amortization expense of \$ 0.8 and \$1.0 million respectively.

Expected amortization over the next five years, including the remainder of fiscal 2024 and thereafter, as of September 30, 2024, is as follows:

| (\$ in thousands) | Intangible Assets |
|-------------------------------|-------------------|
| Year Ended June 30 | |
| Remaining in fiscal year 2025 | \$ 2,494 |
| 2026 | 3,015 |
| 2027 | 2,966 |
| 2028 | 1,938 |
| 2029 | 659 |
| Thereafter | 1,477 |
| Total Expected Amortization | \$ 12,549 |

Note 8: Accrued Expenses

Accrued Expenses consists of the following at:

| (\$ in thousands) | September 30, 2024 | June 30, 2024 |
|----------------------------------|--------------------|---------------|
| Marketing Funds Accruals | \$ 2,962 | \$ 5,012 |
| Payroll and Payroll Tax Accruals | 1,221 | 2,782 |
| Accruals for Other Expenses | 1,908 | 1,577 |
| Total Accrued Expenses | \$ 6,091 | \$ 9,371 |

11

[Table of Contents](#)

Note 9: Revolving Credit Facility

On December 21, 2023, the Company refinanced its existing credit facility with Bank of America and established a new credit facility with White Oak Commercial Financing, LLC.

Availability under the terminated Bank of America Credit Facility was limited by the Company's borrowing base calculation, as defined in the credit agreement relating to this facility. In addition, there was a commitment fee of 0.25% for unused credit line with fees for the three months ending September 30, 2023, of \$0.33 million. Availability at September 30, 2023, was approximately \$ 7 million with an outstanding revolver balance of \$126 million. As of September 30, 2023, the effective interest rate was 8.4% (SOFR plus a spread of 3.11%)

On December 21, 2023, the Company entered into a new credit facility with White Oak Commercial Finance, LLC, which will mature on December 21, 2026. The facility a \$120 million asset-based revolving credit facility (the "Revolving Credit Facility"). Borrowings under the Revolving Credit facility bear interest at the 30-day SOFR rate, subject to a floor of 2.00%, plus a margin ranging from 4.50% to 4.75%, depending on the Company's utilization and consolidated fixed charge coverage ratio. As of September 30, 2024, the effective interest rate was 9.91%.

If the Company reduces or terminates the commitments under the Revolving Credit Facility before its maturity, it will incur an early termination fee of 2.0% if done before December 21, 2024, or 1.0% if done between December 21, 2024, and August 21, 2025. Additionally, if the facility is reduced or terminated on or before June 21, 2025, the Company is required to pay a minimum interest amount of 10% of revolver minimum based on \$100 million until December 2024.

Availability under the Revolving Credit Facility is determined by the Company's borrowing base calculation, as defined in the credit agreement

relating to this facility. The Company also incurs a commitment fee of 0.25% on unused credit line with fees for three months ending September 30, 2024, of \$0.05 million. As of September 30, 2024, the Company had approximately \$ 32 million in available credit, with an outstanding balance of \$88 million.

The maximum borrowings under the Revolving Credit Facility are determined by a formula based on eligible accounts receivable and inventory, subject to lender discretion. The facility includes standard representations and warranties, events of default, and financial reporting requirements, including maintaining a fixed charge coverage ratio of at least 1.1 to 1.0 on a trailing twelve-month basis. The facility also imposes covenants restricting the Company's ability to incur additional indebtedness, grant liens, pay dividends, make unpermitted investments, or materially change its business operations. The facility is secured by a first-priority security interest in the Company's and its subsidiaries' cash, accounts receivable, and related assets.

The Company was in compliance with its covenants as of September 30, 2024. Revolving Credit Facility, net consists of the following at:

| (\$ in thousands) | September 30, 2024 | June 30, 2024 |
|--------------------------------|--------------------|---------------|
| Outstanding Balance | \$ 88,464 | \$ 72,979 |
| Less: Deferred Finance Costs | (3,041) | (3,392) |
| Revolving Credit Facility, Net | \$ 85,423 | \$ 69,587 |

During the three months ending September 30, 2024, and 2023, the Company had interest expenses of \$ 2.0 million and \$2.6 million, amortization of deferred finance costs of \$0.35 million and \$0.04 million, and unused credit line fees of \$ 0.05 million and \$0.03 million, respectively.

[Table of Contents](#)

Note 10: Employee Benefits Company Health Plans

The Company sponsors the Alliance Health & Benefits Plan (AHBP) consisting of the following plans: self-insured medical (PPO and HDHP), dental (PPO and HMO), vision, life Insurance, and short & long-term disability. Medical insurance is self-insured to a maximum company exposure of \$225,000 per individual occurrence, at which time a stop loss policy covers the balance of covered claims. The Company contributes various percentages to different levels of premium coverage. As of September 30, 2024, the Company fully accrued for estimated run out exposure on a mature claim basis, as provided and calculated by our plan administrator.

The Dental insurance HMO is self-insured to a maximum per individual procedure based on a published schedule which measures exposure. The PPO policy is fully insured. The Company contributes various percentages to different levels of premium coverage. As of September 30, 2024, the Company was fully accrued for estimated run out exposure on a mature claim basis, as provided and calculated by the plan administrator. The vision plan, life insurance plan, and short and long-term disability plans are fully insured, sponsored by the Company and premiums are paid by the employer and employee based on various Board approved schedules. At September 30, 2024, and June 30, 2024, the accrued estimated run out exposure totaled approximately \$332,000 and \$218,000, respectively, for the medical and dental insurance plans. Accrued estimated runout exposure is included in accrued expenses on the condensed consolidated balance sheets.

401(k) Plan

The Company has the Alliance Entertainment 401(k) Plan (the Plan) covering all eligible employees of the Company. All employees over the age of 18 are eligible to participate in the Plan at the beginning of the month following the date of hire. The Plan has an automatic deferral at the beginning of the month following the date of hire. Employees are automatically enrolled in the Plan with a 3% contribution; however, they have the option to increase/decrease their deferrals or opt out of the Plan at any time. The Company currently offers a match contribution of \$0.50 of every dollar up to 4% of contribution percentage. The Company conducts a retirement plan review on an annual basis.

Note 11: Income Taxes

The effective tax rate was 152% and 26% for the three months ending September 30, 2024, and 2023, respectively. State tax rates vary among states and average approximately 7.0% although some state rates are higher, and a small number of states do not impose an income tax.

The federal statutory tax rate is 21.0% and the average state tax rate, net of the associated federal deduction is approximately 7%. For the three months ended September 30, 2024, and 2023, the difference between the Company's effective tax rate and the federal statutory rate primarily resulted from state income taxes, Foreign Derived intangible income, and one discrete item from a one-time adjustment for out of measurement period adjustment to the deferred tax liability for software costs.

Note 12: Commitments and Contingencies

Litigation, Claims and Assessments

We are exposed to claims, litigation and/or cyber-attacks of varying degrees arising in the ordinary course of business and use various methods to resolve these matters. When a loss is probable, we record an accrual based on the reasonably estimable loss or range of loss. When no point of loss is more likely than another, we record the lowest amount in the estimated range of loss and, if material, disclose the estimated range of loss. We do not record liabilities for reasonably possible loss contingencies but do disclose a range of reasonably possible losses if they are material and we are able to estimate such a range. If we cannot provide a range of reasonably possible losses, we will explain the factors that prevent us from determining such a range. Historically, adjustments to our estimates have not been material. We believe the recorded reserves in our consolidated financial statements are adequate in light of the probable and estimable liabilities. We do not believe that any of these identified claims or litigation will be material to our results of operations, cash flows, or financial condition.

[Table of Contents](#)

On March 31, 2023, a class action complaint, titled *Matthew McKnight v. Alliance Entertainment Holding Corp. f/k/a Adara Acquisition Corp., Adara Sponsor LLC, Thomas Finke, Paul G. Porter, Beatriz Acevedo-Greiff, W. Tom Donaldson III, Dylan Glenn, and Frank Quintero*, was filed in the Delaware Court of Chancery against our pre-Business Combination board of directors and executive officers and Adara Sponsor LLC, alleging breaches of fiduciary duties by purportedly failing to disclose certain information in connection with the Business Combination and by approving the Business Combination. On August 8, 2024, the Company entered into a settlement agreement regarding pending litigation. A settlement hearing is scheduled for November 25, 2024. The Company has accrued \$511,000 as of September 30, 2024, and June 30, 2024, respectively, based on the expected loss.

On June 6, 2024, Office Create Corporation filed a complaint against COKeM International Ltd. ("COKeM") in the United States District Court for the District of Minnesota alleging contributory trademark infringement, contributory false designation of origin and unjust enrichment relating to COKeM's [alleged] distribution of a specific video game, Cooking Mama: Cookstar. The plaintiff is seeking damages of no less than \$20,913,200, plus interest of 9% accruing from October 3, 2022. On August 29, 2024, COKeM filed a response denying all allegations. COKeM intends to vigorously defend the lawsuit. On September 12, 2024, COKeM filed a Third-Party Complaint against Planet Entertainment LLC and Steven Grossman asserting claims for indemnification and contribution. At this time, we are unable to estimate potential losses, if any, related to this lawsuit.

On August 8, 2024, a class action complaint, *Feller v. Alliance Entertainment, LLC and DirectToU, LLC*, was filed under the Video Privacy Protection Act ("VPPA"). The complaint alleges that the Company violated the VPPA by disclosing users' personally identifiable information, as well as information regarding videos they viewed on the Company's website, to Facebook through the use of Facebook Pixel. The Company is evaluating the claims and intends to defend against the allegations vigorously. At this time, the potential outcome or range of financial impact cannot be reasonably estimated.

Note 13: Related Party Transactions

GameFly Holdings, LLC

On February 1, 2023, Alliance entered into a Distribution Agreement (the "Agreement") with GameFly Holdings, Inc., a customer of Alliance that is owned by the principal stockholders of Alliance, which is effective from February 1, 2023, through March 31, 2028, at which time the Agreement continues indefinitely until either party provides the other party with six-month advance notice to terminate the Agreement. During the three months ending September 30, 2024, and 2023, Alliance had distribution revenue in the amount of \$0 and \$0.8 million, respectively, recorded as net revenues in the unaudited condensed consolidated statements of operations.

14

[Table of Contents](#)

MVP Logistics, LLC

MVP Logistics is an independent contractor, which, prior to August 31, 2023, was partially owned by Joe Rehak, the SVP of Operations of COKeM International Limited, which Alliance acquired in September 2020. Subsequent to August 31, 2023, Mr. Rehak no longer has an equity stake in MVP Logistics and retired from COKeM in January 2024. Alliance believes the amounts payable to MVP Logistics are at fair market value.

During the three months ended September 30, 2024, and 2023 Alliance incurred costs with MVP Logistics, LLC, in the amount of \$ 0 and \$1.0 million, respectively, recorded as cost of revenues in the unaudited condensed consolidated statements of operations, for freight shipping fees, transportation costs, warehouse distribution, and 3PL management services (for Arcades) at the Redlands, California and South Gates, California distribution facilities.

Ogilvie Loans

On July 3, 2023, the Company entered into a \$17 million line of credit (the "Ogilvie Loan") with Bruce Ogilvie, a principal stockholder. Initial borrowings amounted to \$10 million on that date, followed by an additional \$ 5 million on July 10, 2023. These sums were repaid on July 26, 2023. Subsequently, on August 10, 2023, the Company accessed the Ogilvie Loan for the full \$17 million, repaying \$7 million on August 28, 2023. Further transactions occurred on September 14th, with a borrowing of \$7 million, repaid on September 28, 2023. On October 10, 2023, an additional \$ 7 million was borrowed and repaid on October 18th, 2023. As of September 30, 2024, and June 30, 2024, the outstanding balance on the Ogilvie Loan stood at \$10 million.

The Ogilvie Loan matures on December 22, 2026, and bears interest at the rate of the 30-day SOFR plus 5.5%. Interest expenses for the three months ended September 30, 2024, and 2023 were \$0.27 million and \$0.24, respectively. The interest rate at September 30, 2024, was 10.3%.

B&D Capital Partners, LLC

During the fiscal year ended June 30, 2024, the Company entered into a financial advisory agreement with B&D Capital Partners, LLC ("BDPC"). W. Tom Donaldson III, a director of the company, is managing partner and a principal equity holder of Blystone & Donaldson, the parent company of BDPC. The agreement, dated July 28, 2023, engaged BDPC as a non-exclusive financial advisor to assist the Company in issuing privately held debt securities and related transactions. BDPC is owned by Blystone & Donaldson, LLC, and Mr. Donaldson, an independent director of the Company, is a principal of BDPC.

Under the terms of the agreement, BDPC provided financial advisory services, including the review of confidential information, identification and engagement of potential transaction parties, and assistance with investor presentations.

During the three months ending September 30, 2024, the Company did not incur any related party fees with BDPC. For the fiscal year ending June 30, 2024, the Company paid BDPC approximately \$1.8 million, which included an advisory fee equal to 1.5% of the gross proceeds from transactions involving White Oak Commercial Finance, LLC.

15

[Table of Contents](#)

Note 14: Leases

Components of lease expense were as follows for the three months ending September 30, 2024, and 2023:

| (\$ in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|--|--|--|
| Lease Cost | | |
| Finance Lease Cost: | | |
| Amortization of Right of Use Assets | \$ 18 | \$ 46 |
| Interest on lease liabilities | — | 2 |
| Operating Lease Cost | 1,061 | 933 |
| Short - Term Lease Cost | 11 | 19 |
| Variable Lease Cost | 240 | 224 |
| Total Lease Cost | <u>\$ 1,330</u> | <u>\$ 1,224</u> |
| Other Information | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from finance leases | \$ 0.1 | 2 |
| Operating cash flows from operating leases | \$ 798 | \$ 1,020 |
| Financing cash flows from finance leases | \$ 19 | 49 |
| Right of use assets obtained in exchange for new finance lease liabilities | \$ 7,161 | 8,681 |
| Weighted average remaining lease term - finance leases (in Years) | 0.1 | 0.9 |
| Weighted average remaining lease term - operating leases (in Years) | 6.3 | 1.4 |
| Weighted average discount rate - finance leases | 3.1% | 3.7% |
| Weighted average discount rate - operating leases | 5.7% | 4.3% |

Maturities of operating and finance lease liabilities as of September 30, 2024, are as follows:

| (\$ in thousands) | Operating Leases | Finance Leases |
|--------------------------|------------------|----------------|
| Remaining in fiscal 2025 | 2,613 | 2,504 |
| 2026 | 4,115 | 3,340 |
| 2027 | 4,121 | 1,988 |
| 2028 | 4,218 | — |
| 2029 | 4,352 | — |
| Thereafter | 7,173 | — |
| Total Lease Payments | 26,592 | 7,832 |
| Less Imputed Interest | (4,686) | (670) |
| Total | 21,906 | 7,162 |

16

[Table of Contents](#)

Note 15: Merger

As disclosed in Note 1, on February 10, 2023, the Company completed the Merger with Adara and a Merger Sub, resulting in the Company becoming a publicly traded company. While Adara was the legal acquirer in the Merger, for financial accounting and reporting purposes under U.S. GAAP, Legacy Alliance was the accounting acquirer, and the Merger was accounted for as a "reverse recapitalization." A reverse recapitalization (i.e., a capital transaction involving the exchange of stock by Adara for Legacy Alliance's stock) does not result in a new basis of accounting, and the consolidated financial statements of the combined entity represent the continuation of the consolidated financial statements of Legacy Alliance. Accordingly, the consolidated assets, liabilities, and results of operations of Legacy Alliance became the historical consolidated financial statements of the combined company, and Adara's assets, liabilities and results of operations were consolidated with Legacy Alliance beginning on the acquisition date. Operations prior to the Merger are presented as those of Legacy Alliance in future reports. The net assets of Adara were recognized at historical cost (which was consistent with carrying value), with no goodwill or other intangible assets recorded.

At the closing of the Merger, each of the then issued and outstanding shares of Alliance common stock were cancelled and automatically converted into the right to receive the number of shares of Adara common stock equal to the exchange ratio (determined in accordance with the Business Combination Agreement). The Company's 900 shares of previously outstanding common stock were exchanged for 47,500,000 shares of Class A Common Stock. In addition, the treasury stock was cancelled. This change in equity structure has been retroactively reflected in the financial statements for all periods presented.

The following table summarizes the shares of Class A outstanding following consummation of the Merger:

| | |
|---|------------|
| Alliance Public Shares | 167,170 |
| Alliance Sponsor Shares | 1,500,000 |
| Legacy Alliance Shares | 47,500,000 |
| Total Shares of Common Stock Outstanding after Merger | 49,167,170 |

Up to 60 million additional shares of Class A common stock may be issued to the Legacy Alliance shareholders at no cost and upon automatic conversion of the 60 million shares of Class E common stock based on future performance of the Company's stock price and warrants that can be exercised to purchase shares of Class A common stock at \$11.50 per share (See Note 17). The 60 million shares of Class E common stock are held in an escrow account as additional consideration contingent on triggering events occurring within 10 years after the Merger. Upon reaching the following triggering events, the Class E shares will be released from the escrow account to the three major shareholders, and converted to Class A shares on a 1:1 basis:

- If the stock price increases to \$20 per share within five years, 20 million Class E shares will be released.
- If the stock price increases to \$30 per share within seven years, 20 million Class E shares will be released.
- If the stock price increases to \$50 per share within ten years, 20 million Class E shares will be released.

Each share of Class A and Class E common stock has one vote, and the common shares collectively will possess all voting power and will have the exclusive right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders. Since the Class E shares are subject to vesting conditions and meet the contingent exercise and settlement provisions to be considered indexed to the Company's stock, they are accounted for as equity instruments, and are reflected as a reduction of retained earnings, at their fair value on the date of the Merger.

17

[Table of Contents](#)

In connection with the Merger, the Company's 2023 Omnibus Equity Incentive Plan (the "2023 Plan") became effective. The 2023 Plan is a comprehensive incentive compensation plan under which the Company can grant equity-based and other incentives awards to based officers, employees, and directors of, and consultants and advisers to, Alliance and its subsidiaries. The Company has reserved a total of 600,000 shares of common stock for issuance as or under awards to be made under the 2023 Plan. To the extent that an award lapses, expires, is canceled, is terminated unexercised or ceases to be exercisable for any reason, or the rights of its holder terminate, any common stock subject to such award shall again be available for the grant of a new award. The 2023 Plan shall continue in effect, unless sooner terminated, until the tenth anniversary of the date on which it is adopted by the Board of Directors (except as to awards outstanding on that date), and the Board of Directors in its discretion may terminate it at any time with respect to any shares for which awards have not theretofore been granted, provided certain conditions are met, in accordance with the 2023 Plan. The price at which a share may be purchased upon exercise of a share option shall be determined by the Plan Committee; provided, however, that such option price (i) shall not be less than the fair market value of a share on the date such share option is granted, and (ii) shall be subject to adjustment as provided in the 2023 Plan. As of September 30, 2024, 463,800 shares were awarded under the 2023 Plan.

Note 16: Warrants

As a result of the Merger, at September 30, 2024, and June 30, 2024, there were 5,750,000 Public Warrants, 4,120,000 Private Placement Warrants, and 50,090 Representatives Warrants issued and outstanding, each exercisable to purchase one share of Class A common stock at an exercise price of \$11.50 (the "Warrants").

The Company will not be obligated to deliver any shares of Class A common stock pursuant to the exercise of a warrant and will have no obligation to settle such warrant exercise unless a registration statement under the Securities Act covering the issuance of the shares of Class A common stock underlying the Warrants is then effective and a prospectus relating thereto is current, subject to the Company satisfying its obligations with respect to registration. Additionally, no warrant will be exercisable, and the Company will not be obligated to issue shares of Class A common stock upon exercise of a warrant unless Class A common stock issuable upon such warrant exercise has been registered, qualified, or deemed to be exempt under the securities laws of the state of residence of the registered holder of the Warrants.

The Company filed with the SEC on April 11, 2023, its registration statement covering the shares of Class A common stock issuable upon exercise of the Warrants, to cause such registration statement to become effective and to maintain a current prospectus relating to those shares of Class A common stock until the warrants expire or are redeemed, as specified in the warrant agreement. The registration, as amended, became effective June 29, 2023.

Public Warrants

The Public Warrants qualify for the derivative scope exception under ASC 815 and are therefore classified as equity on the consolidated balance sheets. They may only be exercised for a whole number of shares. The Public Warrants are currently exercisable at \$11.50 per share and will expire five years after the completion of the Merger or earlier upon redemption or liquidation. The Company may redeem for cash the outstanding Public Warrants:

- in whole and not in part.
- at a price of \$0.01 per Public Warrant.
- upon not less than 30 days' prior written notice of redemption after the warrants become exercisable to each warrant holder; and
- if, and only if, the reported last sale price of the Class A common stock equals or exceeds \$18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations, and the like) for any 20 trading days within a 30-trading day period commencing once the Public Warrants become exercisable and ending three business days before the Company sends the notice of redemption to the warrant holders. If and when the Public Warrants become redeemable by the Company, the Company may exercise its redemption right.

[Table of Contents](#)

Even if it is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

If the Company calls the Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Public Warrants to do so on a "cashless basis," as described in the warrant agreement. The exercise price and number of shares of Class A common stock issuable upon exercise of the Public Warrants may be adjusted in certain circumstances including in the event of a stock dividend, or recapitalization, reorganization, merger, or consolidation. However, the Public Warrants will not be adjusted for issuances of Class A common stock at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Public Warrants.

Private Placement Warrants:

The Private Placement Warrants are identical to the Public Warrants underlying the Units sold in the Initial Public Offering but are classified as liabilities on the consolidated balance sheet as they are not considered indexed to the company's own stock. Additionally, the Private Placement Warrants are exercisable on a cashless basis and are non-redeemable, so long as they are held by the initial purchasers or their permitted transferees. If the Private Placement Warrants are held by someone other than the initial purchasers or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants as described above.

Representative Warrants

The Company issued Representative Warrants, for minimal consideration to ThinkEquity, a division of Fordham Financial Management, Inc. (and/or its designees), in a private placement simultaneously with the closing of Alliance's initial public offering, which are also classified as liabilities on the consolidated balance sheet. The Representative Warrants are identical to the Private Warrants except that so long as the Representative Warrants are held by ThinkEquity (and/or its designees) or its permitted transferees, the Representative Warrants (i) will not be redeemable by the Company, (ii) may be exercised by the holders on a cashless basis, (iii) are entitled to registration rights and (iv) are not exercisable more than five years from the effective date of the Merger.

Note 17: Fair Value

The Company complies with the provisions of ASC 820, Fair Value Measurements, for its financial and non-financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis.

The Company accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety.

As of September 30, 2024, and 2023, the Company has classified the Private Placement Warrants and the Representative Warrants as Level 3 fair value measurements. Management evaluates a variety of inputs and then estimates fair value based on those inputs. As discussed below, the Company utilized the Black Scholes Model in valuing the Private Placement Warrants and Representative Warrants.

The estimated fair value of cash, trade receivables, accounts payable, accrued expenses and other current liabilities are based on Level 1 inputs as the fair values approximate carrying amounts as of June 30, 2024, and 2023, based on the short-term nature and maturity of these instruments.

The estimated fair values of subordinated shareholder debt and the credit facility are based on Level 2 inputs, which consist of interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities. As of September 30, 2024, and 2023 the estimated fair value of the Company's short and long-term debt approximates its carrying value due to market interest rates charged on such debt or their short-term maturities.

[Table of Contents](#)

The Company recomputes the fair value of the Private and the Representative Warrants at the issuance date and the end of each quarterly reporting period. Such value computation includes subjective input assumptions that are consistently applied each period. If the Company were to alter its assumptions or the numbers input based on such assumptions, the resulting fair value could be materially different.

The Company utilized the following assumptions to estimate the fair value of the Private Warrants and Representative Warrants as of September 30, 2024.

| | September 30, 2024 | | June 30, 2024 | |
|--------------------------|--------------------|-------|---------------|-------|
| Stock Price | \$ | 2.72 | \$ | 3.00 |
| Exercise price per share | \$ | 11.50 | \$ | 11.50 |
| Risk-free interest rate | | 3.55% | | 4.41% |

| | | |
|-------------------------|-------|-------|
| Expected term (years) | 3.3 | 3.6 |
| Expected volatility | 42.4% | 36.0% |
| Expected dividend yield | — | — |

The significant assumptions using the Lattice model approach for valuation of the Warrants were determined in the following manner:

- (i) Risk-free interest rate: the risk-free interest rate is based on the U.S. Treasury rate with a term matching the time to expiration.
- (ii) Expected term: the expected term is estimated to be equivalent to the remaining contractual term.
- (iii) Expected volatility: expected stock volatility is based on daily observations of the Company's historical stock value and implied by the market price of the public warrants, adjusted by guideline public company volatility.
- (iv) Expected dividend yield: expected dividend yield is based on the Company's anticipated dividend payments. As the Company has never issued dividends, the expected dividend yield is 0% and this assumption will be continued in future calculations unless the Company changes its dividend policy.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as (in thousands):

| | As of September 30, 2024 | | | |
|---|--------------------------|---------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Private Placement and Representative Warrants | \$ 288 | \$ — | \$ — | \$ 288 |

| | As of June 30, 2024 | | | |
|---|---------------------|---------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Private Placement and Representative Warrants | \$ 247 | \$ — | \$ — | \$ 247 |

20

[Table of Contents](#)

The table below presents the change in number and fair value of the Private and Representative Warrants since June 30, 2024: (in thousands, except the number of shares)

| | Private Warrants | | Representative Warrants | | Total | |
|--------------------|------------------|--------|-------------------------|-------|-----------|--------|
| | Shares | Value | Shares | Value | Shares | Value |
| June 30, 2024 | 4,120,000 | \$ 244 | 50,090 | \$ 3 | 4,170,090 | \$ 247 |
| Exercised | — | — | — | — | — | — |
| Change in value | — | \$ 41 | — | \$ — | — | \$ 41 |
| September 30, 2024 | 4,120,000 | \$ 285 | 50,090 | \$ 3 | 4,170,090 | \$ 288 |

Note 18: Stock-Based Compensation

As part of the merger with Adara on February 10, 2023, 600,000 shares were authorized for issuance under the 2023 Omnibus Equity Incentive Plan (the "2023 plan"). Total restricted stock awards of 463,800 shares were granted to employees on June 15, 2023, by approval of the compensation committee. The shares fully vested on October 4, 2023. The Company does not have an annual stock-based compensation plan.

In connection with awards granted, the Company recognized \$ 0 and \$1.3 million in stock-based compensation expense during the three months ending September 30, 2024, and September 30, 2023.

In September 2024, the Company's Board approved, subject to stockholder approval, an amendment to the 2023 Plan to increase the number of shares authorized for issuance thereunder by 400,000 shares of Class A common stock, for a total amount reserved under the 2023 Plan of 1,000,000 shares of Class A common stock. On November 7, 2024, the Company's stockholder approved the amendment to the 2023 Plan.

Note 19 – Issuance of Common Stock

During the three months ending September 30, 2023, the Company sold 1,335,000 shares of its Class A common stock at a price of \$ 3.00 per share, generating gross proceeds of approximately \$4.0 million. After deducting underwriting discounts, offering expenses, and representative warrants, net proceeds were approximately \$1.3 million. No shares were issued during the three months ending September 30, 2024.

21

[Table of Contents](#)

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

The objective for the "Management's Discussion and Analysis of Financial Condition and Results of Operations" is to provide information the Company's management team believes is necessary to achieve an understanding of its financial condition and the results of business operations with particular emphasis on the Company's future and should be read in conjunction with the Company's audited consolidated financial statements, and footnotes.

This analysis contains forward-looking statements concerning the Company's performance expectations and estimates. Other than statements with historical context, commentary should be considered forward-looking and carries with it risks and uncertainties. See "Statement Regarding Forward-Looking Statements" and Part I, Item 1A. Risk Factors, of this Form 10-Q for a discussion of other uncertainties, risks and assumptions associated with these statements.

Alliance is a leading global wholesaler and distributor of physical media, entertainment products, hardware, and accessories across various platforms. Employing an established multi-channel strategy, Alliance operates as the vital link between renowned international manufacturers of entertainment content and top-tier retail partners both domestically and internationally. With premier suppliers such as Universal Pictures, Warner Brothers Home Video, Walt Disney Studios, Sony Pictures, Lionsgate, Paramount, Universal Music Group, Sony Music, Warner Music Group, Microsoft, Nintendo, Take Two, Electronic Arts, Ubisoft, Square Enix, and others, Alliance maintains in-stock inventory of over 325,000 SKU products, consisting of vinyl records, video games, compact discs, DVD, Blu-Rays, and collectibles. Combined with exclusive content from AMPED Distribution and Distribution Solutions, Alliance Entertainment serves as a valued added wholesale distributor, direct-to-consumer ("DTC") distributor and e-commerce provider to notable partners including industry leaders like Walmart, Amazon, Best Buy, Barnes & Noble, Wayfair, Costco, Dell, Verizon, Kohl's, Target, Shopify, and others. Currently, the company sells its products, permitted for export, to more than 70 countries worldwide.

Additionally, Alliance manages a diverse portfolio of owned e-commerce brands, including Critics' Choice, Collectors' Choice, Movies Unlimited,

DeepDiscount, popmarket, blowtoutahere, Fulfillment Express, Importcds, GamerCandy, WowHD, and others.

Alliance provides state-of-the art warehousing and distribution technologies, operating systems and services that seamlessly enable entertainment product transactions to better serve customers directly or through our distribution affiliates. These technology-led platforms, combined with Alliance's sales and distribution network, create a modern entertainment physical product marketplace that provides the discerning customer with enhanced options on efficient consumer-friendly platforms inventory. Alliance is the retailers' back office for in-store and e-commerce solutions. All electronic data interchange ("EDI") and logistics are operational and ready for existing retail channels to add new products.

Merger and Business Acquisition

Alliance has a proven history of successfully acquiring and integrating competitors and complementary businesses. The Company will continue to evaluate opportunities to identify targets that meet strategic and economic criteria.

On July 1, 2022, Alliance purchased the assets and liabilities of Think3Fold, LLC, a collectibles distribution company. This acquisition resulted in increased shelf space at our largest customers and expanded our product offerings.

On February 10, 2023, AENT Corporation (f/k/a Alliance Entertainment Holding Corporation) ("Legacy Alliance"), Adara Acquisition Corp. ("Adara") and Adara Merger Sub, Inc. ("Merger Sub") consummated the closing of the transactions contemplated by the Business Combination Agreement, dated as of June 22, 2022, by and among Adara, Merger Sub and Legacy Alliance. Pursuant to the terms of the Business Combination Agreement, a business combination of Legacy Alliance and Adara was affected by the merger of Merger Sub with and into Alliance (the "Merger" or the "Business Combination"), with Alliance surviving the Merger as a wholly-owned subsidiary of Adara. Following the consummation of the Merger on the closing of the Business Combination, Adara changed its name from Adara Acquisition Corp. to Alliance Entertainment Holding Corporation (the "Company").

22

[Table of Contents](#)

While the legal acquirer in the Business Combination Agreement was Adara, for financial accounting and reporting purposes under U.S. GAAP, Legacy Alliance was the accounting acquirer, and the Merger was accounted for as a "reverse recapitalization." A reverse recapitalization (i.e., a capital transaction involving the exchange of stock by Adara for Legacy Alliance's stock) does not result in a new basis of accounting, and the consolidated financial statements of the combined entity represent the continuation of the consolidated financial statements of Legacy Alliance in many respects. Accordingly, the consolidated assets, liabilities, and results of operations of Legacy Alliance became the historical consolidated financial statements of the combined company, and Adara's assets, liabilities and results of operations were consolidated with Legacy Alliance beginning on the acquisition date. Operations prior to the Merger are presented as those of Legacy Alliance in future reports. The net assets of Adara were recognized at historical cost (which was consistent with carrying value), with no goodwill or other intangible assets recorded.

Upon consummation of the Merger, the most significant change in Legacy Alliance's future reported financial position and results of operations was a decrease in net Equity of \$787,000 as compared to Legacy Alliance's consolidated balance sheet.

As a result of the Merger, Alliance Entertainment became the successor to an SEC-registered company, which requires us to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. We expect to incur additional annual expenses as a public company for, among other things, directors' and officers' liability insurance, director fees and additional internal and external accounting, legal and administrative resources, including increased audit and legal fees.

Macroeconomic Uncertainties

Unfavorable conditions in the economy in the United States and abroad may negatively affect the growth of our business and have affected our results of operations. For example, macroeconomic events, including rising inflation, the U.S. Federal Reserve raising interest rates, recent bank failures, the Russia-Ukraine war and the lingering effects of the COVID-19 pandemic have led to economic uncertainty globally. The effect of macroeconomic conditions may not be fully reflected in our results of operations until future periods. If, however, economic uncertainty increases or the global economy worsens, our business, financial condition and results of operations may be harmed. For further discussion of the potential impacts of macroeconomic events on our business, financial condition, and operating results, see the section titled Part I "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2024, including the risk factor titled "Unstable market and economic conditions have had and may continue to have serious adverse consequences on our business, financial condition and share price."

Key Performance Indicators

Management monitors and analyzes key performance indicators to evaluate financial performance, including:

Net Revenue: To derive Net Revenue, the Company reduces total gross sales by customer returns, returns reserve, and allowances including discounts.

Cost of Revenues (excluding depreciation and amortization): Our cost of revenue reflects the total costs incurred to market and distribute products to customers. Changes in cost are impacted primarily by sales volume, product mix, product obsolescence, freight costs, and market development funds ("MDF").

Operating Expenses: Our Operating Expenses are the direct and indirect costs associated with the distribution and fulfillment of products and services. They include both Distribution and Fulfillment and Selling, General and Administrative (SG&A) Expenses. The Distribution and Fulfillment Expenses are the payroll and operating expenses associated with the receipt, warehousing, and distribution of product.

Margins: To analyze profitability, the Company reviews gross and net margins in dollars and as a percent of revenue by line of business and product line.

23

[Table of Contents](#)

Selling, General and Administrative Expenses: The Selling, General and Administrative Expenses are payroll and operating costs for Information Technology, Sales & Marketing, and General & Administrative functions. In addition, we include Depreciation and Amortization expenses and Transaction Costs, if applicable.

Balance Sheet Indicators: The Company views cash, product inventory, accounts payable, and working capital as key indicators of its financial position.

Alliance Entertainment Holding Corporation Results of Operations Three Months Ended September 30, 2024, Compared to Three Months Ended September 30, 2023

| (\$ in thousands except shares) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|---------------------------------|--|--|
| Net Revenues | \$ 228,990 | \$ 226,755 |

| | | |
|--|---------------|----------------|
| Cost of Revenues (excluding depreciation and amortization) | 203,455 | 200,501 |
| Operating Expenses | | |
| Distribution and Fulfillment Expense | 9,018 | 11,714 |
| Selling, General and Administrative Expense | 13,145 | 14,439 |
| Depreciation and Amortization | 1,258 | 1,641 |
| Restructuring Costs | 50 | 47 |
| (Loss) on Disposal of Fixed Assets | (15) | |
| Total Operating Expenses | 23,456 | 27,841 |
| Operating Income (Loss) | 2,079 | (1,587) |
| Other Expenses | | |
| Interest Expense, Net | 2,839 | 3,140 |
| Total Other Expenses | 2,389 | 3,140 |
| (Loss) Before Income Tax Benefit | (760) | (4,727) |
| Income Tax (Benefit) | (1,157) | (1,265) |
| Net Income (Loss) | 397 | (3,462) |

Net Revenue: Year-over-year, total net revenues increased from \$227 million to \$229 million (\$2 million, 1%) for the three months ended September 30, 2024. Alliance Entertainment is a recognized leader and value-added distributor with exclusive distribution rights for approximately 150 studios and labels in the film and music industry. This extensive portfolio of unique content, combined with our deep inventory portfolio, enables us to service bulk B2B and direct-to-consumer (DTC) businesses with a vast selection of products unavailable through other distributors. Our unique DTC suite of distribution and inventory solutions for the e-commerce retail industry, including our consumer direct subsidiary DirectToU LLC, enabled approximately 34% of gross revenue for the three months ended September 30, 2024, versus 30% for the three months ended September 30, 2023.

[Table of Contents](#)

Year over year, vinyl record sales increased from \$67.3 million to \$70.5 million (\$3.2 million, 4.8%) for the three months ending September 30, 2024. The average selling price of Vinyl was up 4.9% and partially offset by decreased volume resulting in the 4.8% increase in revenue growth versus the prior year. We expect music enthusiasts and collectors to extend this upward trend because of passion for music, their appreciation for the artwork, and a desire to enhance their physical collection. Likewise, Music Compact Discs (CDs) sales increased from \$33.1 million to \$34.4 million (\$1.3 million, 4.0%). The popularity of K-Pop helped us realize a 1.1% increase in the average selling price of CDs combined with an increase in volume resulted in a net gain in revenue year-over-year. Similarly, physical movie sales, which include DVDs, Blu-Ray, and Ultra HD, increased from \$46.8 million to \$52.9 million (\$6.1 million, 13.2%) versus the same period last year. The average selling price of physical film products increased 18.6% year over year and more than offset the decline in volume. The consistent flow of new theatrical releases, combined with 4K and collectable SteelBook content, continues to drive home video sales. We expect the trend of higher price points to continue as brick & mortar retailers cater to the consumer preference for omnichannel shopping experiences and curated content versus inexpensive, mass market product offerings. Alliance Entertainment's ability to offer retailers in-store and on-line channels a deep, extensive library of both music and movies helps provide them with the products for a cohesive shopping experience based on personal preference and engagement with their respective brands.

Consumer products revenue decreased from \$10.6 million to \$7.3 million (-\$3.4 million, or -31.6%) versus the prior year. The average selling price per unit declined this quarter primarily due to mix and was partially offset by increased sales volume. The collectables industry appears to have stabilized in the post- pandemic era and major trade shows have resumed their promotion of these unique products. The collectables market is an integral part of the entertainment market segment due to its mix of nostalgic, investment, and intrinsic value. As such, we believe there is continued profitable growth in this category as the industry solidifies how best to leverage and satisfy the consumer demand for collectibles related to movie & TV franchise and classic toy trends.

Gaming product revenue increased from \$52.6 million to \$57.1 million (\$4.5 million, 8.6%). The revenue derived from a higher price point was the direct result of our success selling more hardware and retro arcades than in prior periods. Gaming suppliers continue to transition to subscription-based models, and we expect to benefit from new hardware releases during the next year. We continue to proactively monitor gaming industry trends to ensure we have the right product mix to meet market demand and maximize profitability.

Cost of Revenues: Total cost of revenues, excluding depreciation and amortization, increased from \$201 million to \$203 million (\$2 million or 1%) year over year primarily due to the direct relation of product costs to sales volume. However, Gross Margin dollars decreased year over year as product margins declined from 11.6% to 11.2%. The Gross Margin decline for the three months ended September 30, 2024, over the same period prior year, was primarily due to our desire to convert aged inventory into cash prior to the holiday season albeit at lower margins.

Operating Expenses: Total operating expenses for the quarter decreased from \$28 million to \$23 million and decreased as a percentage of net revenue from 12.2% to 10.3% during the same period the prior year. Total Distribution and fulfillment expense declined from \$11.7 million to \$9.0 million (-\$2.7 million, -23%) and decreased from 5.2% to 3.9% as a percentage of net revenue for the three months ended September 30, 2024, versus the same period prior year. We continue to invest in warehouse automation to reduce the need for total warehouse labor and utilize temporary labor forces to manage changes in demand. As a result, fulfillment payroll declined from \$7.3 million to \$6.3 million (-\$1.0 million, -14%) for the three months ending September 30, 2024, versus the same period of the prior year. In addition, despite low unemployment rates, the average cost per labor hour declined approximately 5%. In May of 2024, we consolidated operations by closing our Shakopee, MN warehouse which also helped reduce operating costs and improve efficiency by centralizing operations and reducing redundancy. And, as we continue to identify and implement business process changes to improve overall efficiency, total selling, general and administrative costs remained flat year over year.

Interest Expense: For the three months ending September 30, 2024, total interest expense decreased from \$3.1 million to \$2.8 million (-\$0.3 million or -10%) versus the same period of the prior year. The primary driver was a reduction of the average revolver balance from \$124 million to \$81 million (-\$43 million or -35%) over the same period of the prior year, partially offset by an increase of our effective interest rate from 8.5% to 10.0%.

[Table of Contents](#)

Income Tax: For the three months ended September 30, 2024, an income tax benefit of \$1.2 million was recorded compared to a benefit of \$1.3 million for the same period in the prior year. Alliance reported a pretax loss of \$0.8 million and \$4.7 million for the three-months ended September 30, 2024, and 2023, respectively. The annual effective tax rate for the three months ended September 30, 2024, was 152%. The difference between the Company's effective tax rate and the 21% federal statutory rate primarily resulted from state income taxes, Foreign derived intangible income, and one discrete item from a one-time adjustment for out of measurement period adjustment to the deferred tax liability for software costs.

Non-GAAP Financial Measures: For the three months ending September 30, 2024, we had non-GAAP Adjusted EBITDA of approximately \$3.4 million compared with Adjusted EBITDA of approximately \$1.3 million in the same period of the prior year. We define Adjusted EBITDA as net gain or loss adjusted to exclude: (i) income tax expense; (ii) other income (loss); (iii) interest expense; and (iv) depreciation and amortization expense and (v) other non-recurring expenses. Our method of calculating Adjusted EBITDA may differ from other issuers and accordingly, this measure may not be comparable to measures used by other issuers. We use Adjusted EBITDA to evaluate our own operating performance and as an integral part of our planning process. We present Adjusted EBITDA as a supplemental measure because we believe such a measure is useful to investors as a reasonable indicator of

operating performance. We believe this measure is a financial metric used by many investors to compare companies. This measure is not a recognized measure of financial performance under GAAP in the United States and should not be considered as a substitute for operating earnings (losses), net earnings (loss) from continuing operations or cash flows from operating activities, as determined in accordance with GAAP. See the table below for a reconciliation, for the periods presented, of our GAAP net income (loss) to Adjusted EBITDA.

| (\$ in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|--|--|--|
| Net Income (Loss) | \$ 397 | \$ (3,462) |
| <i>Add back:</i> | | |
| Interest Expense | 2,839 | 3,140 |
| Income Tax Benefit | (1,157) | (1,265) |
| Depreciation and Amortization | 1,258 | 1,641 |
| EBITDA | \$ 3,337 | \$ 54 |
| <i>Adjustments</i> | | |
| Stock-based Compensation Expense | - | 1,328 |
| Change In Fair Value of Warrants | 41 | (124) |
| Restructuring Cost | 50 | 47 |
| Loss on Disposal of Property and Equipment | (15) | - |
| Adjusted EBITDA | \$ 3,413 | \$ 1,305 |

LIQUIDITY AND CAPITAL RESOURCES

Liquidity: On December 21, 2023, Alliance Entertainment Holding Corporation entered into a Loan and Security Agreement, providing for a three-year \$120 million senior secured asset-based credit facility, with White Oak Commercial Finance, LLC. The Revolving Credit Facility replaced the Company's revolver with Bank of America (the "Prior Credit Facility").

The Company has implemented certain strategic initiatives to reduce expenses and focus on the sale of higher margin products. As a result of the new credit facility, combined with these initiatives and the Company's financial performance, the Company has concluded that it has sufficient cash to fund its operations and obligations (from its cash on hand, operations, working capital and availability on the credit facility) for at least twelve months from the issuance of these consolidated financial statements.

26

[Table of Contents](#)

Our primary sources of liquidity are cash on-hand, cash provided by operating activities, and borrowings under our credit facility. As of September 30, 2024, in addition to the \$4.3 million of cash, we carried a \$88 million revolver balance on our \$120 million credit facility (the "Revolving Credit Facility") under the Loan and Security Agreement with White Oak Commercial Finance, LLC. Since June 30, 2024, our available collateral increased from \$117 million to \$142 million (\$25 million, 21%). Our availability decreased from \$44 million to \$32 million, a decrease of \$12 million, as we build our inventory for the 2024 holiday season. Year over year, we have converted accounts receivable and inventory to cash which was used to reduce the revolver balance from \$126 million on September 30, 2023, to \$88 million (-\$38 million or -28%) on September 30, 2024. Furthermore, combined with a lower loan ceiling of \$120 million versus \$175 million, we have reduced debt service costs.

| (\$in millions) | September 30, 2024 | June 30, 2024 |
|------------------|--------------------|---------------|
| Revolver Balance | \$ 88 | \$ 73 |
| Availability | 32 | 44 |

Our liquidity position has improved significantly since the Merger. The company's liquidity ratio (current assets divided by current liability) increased to 1.34 from 0.87 last year. This improvement reflects a stronger ability to meet short-term obligations, providing us with more financial flexibility and stability. We intend to principally rely on our borrowing capacity under the Revolving Credit Facility as well as any renewal or replacement of such facility. The receipt of cash proceeds from the exercise of our Warrants is dependent upon the market price exceeding the \$11.50 exercise price and the Warrants being exercised for cash. Since the exercise price of the Warrants of \$11.50 per share is significantly greater than the current market price of the Class A common stock \$4.87 as of November 8, 2024 we do not expect the Warrants to be exercised until such time, if ever, that the market price of the Class A common stock exceeds the exercise price of the Warrants. Although the Company does not currently intend to do so, following this offering, the Company may seek to raise additional capital through the sale of equity securities.

Cash Flow: The following table summarizes our net cash provided by or used on operating activities, investing activities and financing activities for the periods indicated and should be read in conjunction with our consolidated financial statements for the three months ended September 30, 2024, and 2023.

| | Three Months Ended | |
|---------------------------------|--------------------|--------------------|
| (\$ in thousands) | September 30, 2024 | September 30, 2023 |
| Net Income (Loss) | \$ 397 | \$ (3,462) |
| Net Cash (Used In) Provided By: | | |
| Operating Activities | (11,622) | (2,739) |
| Investing Activities | (10) | — |
| Financing Activities | 14,793 | 3,099 |

For the three months ended September 30, 2024, on net income of \$0.4 million, the Company's cash used in operating activities was \$11.6 million versus \$2.7 million used in operations for the three months ended September 30, 2023. Compared to the same three-month period last year, there was a \$4 million improvement in net income combined with a \$41 million increase in inventory versus a decrease of \$13 million increase in inventory for the same three-month period prior year. The key driver was approximately \$21 million less inventory on-hand to support sales for the three months ended September 30, 2024, due to the relatively high inventory position on September 30, 2023, because of the supply chain disruptions that occurred in the prior year. The \$41 million decrease in inventory for the three months ending September 30, 2024, was offset of \$43 million increase to accounts payable and a \$10 million increase in trade receivables.

The cashflow from investing activities was \$10,000 for the three months ended September 30, 2024, and \$0 for the same period prior year.

27

[Table of Contents](#)

Net cash provided by financing activities was \$14.7 million for the three months ending September 30, 2024, versus cash provided of \$3.1 million for the same period prior year. The primary reason was an increase in borrowing necessary to obtain desired inventory levels which increased from \$97 million on June 30, 2024, to \$138 million (\$41 million or 42%) at September 30, 2024. However, year over year, financing requirements were reduced because the value of inventory declined from \$159 million on September 30, 2023, to \$138 million on September 30, 2024 (-\$20 million or -13%). In addition, our debt service exposure declined year over year as the revolver balance declined from \$126 million to \$85 million (-\$41 million or -33%) from September 30,

2023, to 2024, respectively.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results, and other assumptions we believe are reasonable. The actual results could differ materially from these estimates.

No changes were made to the critical accounting estimates discussed in the 2024 Annual Report during the three months ending September 30, 2024.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a small reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

28

[Table of Contents](#)

Item 4. Controls and Procedures

Our management, under the direction of and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of September 30, 2024. Based on the evaluation of our disclosure controls and procedures, our management concluded that, as of September 30, 2024, our disclosure controls and procedures were not effective due to the material weaknesses described below. These material weaknesses in our internal control over financial reporting relate to the fact that the Company did not have the necessary business processes and related internal controls fully implemented to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of our financial statements in accordance with U.S. generally accepted accounting principles, as described further below. The Company has added and continues to evaluate the need for additional controls over the accounting and financial reporting requirements related to certain non-routine transactions, which has been implemented within the reporting period but has yet to be effective for most of the fiscal year ended June 30, 2024. The material weaknesses will be considered remediated when such time as management designs and implements effective controls that operate for a sufficient period of time and has concluded, through testing, that these controls are effective.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual consolidated financial statements will not be prevented or detected on a timely basis. As of September 30, 2024, the following material weaknesses existed:

Entity Level Controls

Management did not maintain appropriately designed entity-level controls impacting the (1) control environment, (2) risk assessment procedures, and (3) monitoring activities to prevent or detect material misstatements to the financial statements and assess whether the components of internal control were present and functioning. These deficiencies were primarily attributed to an insufficient number of qualified resources to support and provide proper oversight and accountability over the performance of controls.

Control Activities

Management did not have adequate selection and development of effective control activities resulting in the following material weaknesses:

- *Information Technology (IT) General Controls* – Certain information technology general controls for security and administration of key IT systems were not designed properly or did not operate effectively. Specifically, (i) periodic user access reviews of roles and permissions were not performed sufficiently throughout the period for certain key IT systems, and (ii) certain key IT systems were not logically restricted, resulting in improper segregation of duties for certain business processes.
- *Financial Close Processes* – Management did not design and maintain formal accounting policies, and effective control activities over certain routine aspects of financial reporting. Specifically, management did not design and maintain effective controls over (i) the financial reporting process, including management review controls over areas of accounting such as revenue, inventory, accounts payable, income taxes and payroll, at an appropriate level of precision to detect a material misstatement and sufficient appropriate evidence was not maintained to support the execution and evaluation of the controls performed, (ii) the monthly financial close process, including the review of journal entries, account reconciliations, and analysis of recorded balances, and (iii) the completeness and accuracy of information used by control owners in the operation of certain controls.

Remediation Plan for Material Weaknesses

As of September 30, 2024, the Company has implemented controls that we are confident will remediate the identified material weaknesses. While certain controls were fully operational only for a portion of the prior fiscal year ending June 30, 2024, some control implementations are still ongoing, with significant remediation efforts to be finalized by the fiscal year ending June 30, 2025. These efforts focused on enhancing financial oversight, improving the accuracy and compliance of financial operations, and strengthening our internal controls over financial reporting (ICFR). The Company continues to monitor the effectiveness of these controls to ensure sustained compliance.

Key remediation actions included:

- *Entity-Level Controls*: We enhanced support, oversight, and accountability for key financial reporting positions. Management continues to assess and address resource needs, including the potential addition of accounting and compliance personnel and engagement of third-party advisors, as necessary.
- *Information Technology General Controls*: We implemented user access assessments and periodic reviews for key IT systems to ensure appropriate logical security. IT processes are now centrally managed, and we are evaluating the transition of certain hosting and administrative responsibilities to third-party providers.
- *Financial Close Process and ICFR*: We enhanced controls over revenue, inventory, accounts payable, payroll, income taxes, journal entries, and other business processes. This included developing monitoring controls to timely assess and adjust our ICFR as needed. Additionally, we engaged a third-party service provider to assist in designing and implementing significant process transaction flows and key controls across various business processes.

Despite these material weaknesses, we believe that the financial information presented in this report is materially correct and in accordance with U.S. GAAP. We are committed to ongoing monitoring and will continue reporting progress to the audit committee. However, the full remediation of these

material weaknesses requires that the newly implemented controls operate effectively over time, and we cannot guarantee that additional weaknesses will not be identified in the future.

Changes in Internal Control over Financial Reporting

For the three months ended September 30, 2024, except as described above, there were no changes in our internal control over financial reporting during the most recent fiscal quarter that were identified in connection with management's evaluation required by paragraph (d) of Rules 13d-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Alliance is currently involved in, and may in the future be involved in, legal proceedings, claims, and government investigations in the ordinary course of business. These include proceedings, claims, and investigations relating to, among other things, regulatory matters, commercial matters, intellectual property, competition, tax, employment, pricing, discrimination, consumer rights, personal injury, and property rights.

Depending on the nature of the proceeding, claim, or investigation, the Company may be subject to monetary damage awards, fines, penalties, or injunctive orders. Furthermore, the outcome of these matters could materially adversely affect Alliance's business, results of operations, and financial condition. The outcomes of legal proceedings, claims, and government investigations are inherently unpredictable and subject to significant judgment to determine the likelihood and amount of loss related to such matters.

In particular, on March 31, 2023, a class action complaint, titled *Matthew McKnight v. Alliance Entertainment Holding Corp. f/k/a Adara Acquisition Corp., Adara Sponsor LLC, Thomas Finke, Paul G. Porter, Beatriz Acevedo-Greiff, W. Tom Donaldson III, Dylan Glenn, and Frank Quintero*, was filed in the Delaware Court of Chancery against our pre-Business Combination board of directors and executive officers and Adara Sponsor LLC, alleging breaches of fiduciary duties by purportedly failing to disclose certain information in connection with the Business Combination and by approving the Business Combination. We intend to vigorously defend the lawsuit. There can be no assurance, however, that we will be successful. On September 12, 2024, COKeM filed a Third-Party Complaint against Planet Entertainment LLC and Steven Grossman asserting claims for indemnification and contribution. At this time, we are unable to estimate potential losses, if any, related to the lawsuit.

On June 6, 2024, Office Create Corporation filed a complaint against COKeM International Ltd. ("COKeM") in the United States District Court for the District of Minnesota alleging contributory trademark infringement, contributory false designation of origin and unjust enrichment relating to COKeM's [alleged] distribution of a specific video game, Cooking Mama: Cookstar. The plaintiff is seeking damages of no less than \$20,913,200, plus interest of 9% accruing from October 3, 2022. On August 29, 2024, COKeM filed a response denying all allegations. COKeM intends to vigorously defend the lawsuit. At this time, we are unable to estimate potential losses, if any, related to this lawsuit.

On August 8, 2024, a class action complaint, *Feller v. Alliance Entertainment, LLC and DirectToU, LLC*, was filed under the Video Privacy Protection Act ("VPPA"). The complaint alleges that the Company violated the VPPA by disclosing users' personally identifiable information, as well as information regarding videos they viewed on the Company's website, to Facebook through the use of Facebook Pixel. The Company is evaluating the claims and intends to defend against the allegations vigorously. At this time, the potential outcome or range of financial impact cannot be reasonably estimated.

Item 1A. Risk Factors

Factors that could cause our actual results to differ materially from those in this Quarterly Report are any of the risks described in our Annual Report on Form 10-K for the year ending June 30, 2024, filed with the SEC on September 20, 2024. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

[Table of Contents](#)

Item 6. Exhibits

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

| No. | Description of Exhibit |
|----------|---|
| 31.1* | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1** | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS* | Inline XBRL Instance Document |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | Inline XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.

** Furnished herewith.

31

[Table of Contents](#)

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIANCE ENTERTAINMENT HOLDING CORPORATION

Date: November 12, 2024

By: /s/ Jeffrey Walker

Name: Jeffrey Walker

Title: Chief Executive Officer and Chief Financial Officer
(Principal Executive and Financial Officer)

32

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey Walker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Entertainment Holding Corporation;
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 periods covered by this report;
3. Based on my knowledge, the unaudited condensed financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I, as the registrant's Chief Executive Officer and Chief Financial Officer, am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the periods in which this report is being prepared; and
 - b) (Paragraph omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a));
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the periods covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I, as the registrant's Chief Executive Officer and Chief Financial Officer, have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

/s/ Jeffrey Walker

Jeffrey Walker
Chief Executive Officer and Chief Financial Officer
(Principal Executive and Financial Officer)

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

In connection with the Quarterly Report of Alliance Entertainment Holding Corporation (the "Company") on Form 10-Q for the quarterly period ended September 30, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Jeffrey Walker, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2024

/s/ Jeffrey Walker

Jeffrey Walker
Chief Executive Officer and Chief Financial Officer
(Principal Executive and Financial Officer)
