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

FORM 10-Q

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

For the quarterly period ended **September 30, 2023**

OR

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

For the transition period from __ to __

Commission file number: **001-40358**

LATHAM GROUP, Inc.

(Exact name of registrant as specified in its charter)

Delaware	83-2797583
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
787 Watervliet Shaker Road, Latham, NY	12110
(Address of principal executive offices)	(Zip Code)

(800) 833-3800

(Registrant's telephone number, including area code)

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.0001 per share	SWIM	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of November 3, 2023, 114,755,945 shares of the registrant's common stock, \$0.0001 par value, were outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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Latham Group, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)
(unaudited)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash	\$ 78,113	\$ 32,626
Trade receivables, net	72,413	48,847
Inventories, net	103,224	165,220
Income tax receivable	3,855	2,316
Prepaid expenses and other current assets	5,973	5,998
Total current assets	263,578	255,007
Property and equipment, net	110,331	98,184
Equity method investment	25,234	25,095
Deferred tax assets	7,867	7,762
Operating lease right-of-use assets	31,934	38,308
Goodwill	130,875	131,383
Intangible assets, net	288,749	309,215
Other assets	6,917	4,729
Total assets	<u>\$ 865,485</u>	<u>\$ 869,683</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 27,390	\$ 25,449
Accounts payable – related party	8	358
Current maturities of long-term debt	3,250	3,250
Current operating lease liabilities	6,895	6,923
Accrued expenses and other current liabilities	49,398	50,885
Total current liabilities	86,941	86,865
Long-term debt, net of discount, debt issuance costs, and current portion	298,371	309,631
Deferred income tax liabilities, net	50,181	50,181
Liability for uncertain tax positions	7,503	7,123
Non-current operating lease liabilities	26,121	32,391
Other long-term liabilities	3,671	702
Total liabilities	<u>\$ 472,788</u>	<u>\$ 486,893</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 100,000,000 shares authorized as of both September 30, 2023 and December 31, 2022; no shares issued and outstanding as of both September 30, 2023 and December 31, 2022	—	—
Common stock, \$0.0001 par value; 900,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 114,755,945 and 114,667,975 shares issued and outstanding, as of September 30, 2023 and December 31, 2022, respectively	11	11
Additional paid-in capital	455,767	440,880
Accumulated deficit	(57,068)	(54,568)
Accumulated other comprehensive loss	(6,013)	(3,533)
Total stockholders' equity	392,697	382,790
Total liabilities and stockholders' equity	<u>\$ 865,485</u>	<u>\$ 869,683</u>

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

Latham Group, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)
(unaudited)

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net sales	\$ 160,778	\$ 189,398	\$ 475,625	\$ 587,812
Cost of sales	112,633	130,521	343,877	390,674
Gross profit	48,145	58,877	131,748	197,138
Selling, general, and administrative expense	23,431	26,749	86,697	113,778
Underwriting fees related to offering of common stock	—	—	—	11,437
Amortization	6,635	7,156	19,902	21,504
Income from operations	18,079	24,972	25,149	50,419
Other expense:				
Interest expense, net	5,980	4,264	21,270	9,193
Loss on extinguishment of debt	—	—	—	3,465
Other expense, net	1,031	1,052	205	1,614
Total other expense, net	7,011	5,316	21,475	14,272
Earnings from equity method investment	1,771	1,329	2,468	2,591
Income before income taxes	12,839	20,985	6,142	38,738
Income tax expense	6,686	9,109	8,642	25,399
Net income (loss)	\$ 6,153	\$ 11,876	\$ (2,500)	\$ 13,339
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.05	\$ 0.10	\$ (0.02)	\$ 0.12
Diluted	\$ 0.05	\$ 0.10	\$ (0.02)	\$ 0.12
Weighted-average common shares outstanding – basic and diluted				
Basic	113,538,533	113,171,655	112,629,851	113,521,425
Diluted	114,656,761	113,202,846	112,629,851	114,867,164

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

Latham Group, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(in thousands)
(unaudited)

	<u>Fiscal Quarter Ended</u>		<u>Three Fiscal Quarters Ended</u>	
	<u>September 30, 2023</u>	<u>October 1, 2022</u>	<u>September 30, 2023</u>	<u>October 1, 2022</u>
Net income (loss)	\$ 6,153	\$ 11,876	\$ (2,500)	\$ 13,339
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(2,007)	(2,813)	(2,480)	(5,510)
Total other comprehensive loss, net of tax	(2,007)	(2,813)	(2,480)	(5,510)
Comprehensive income (loss)	<u>\$ 4,146</u>	<u>\$ 9,063</u>	<u>\$ (4,980)</u>	<u>\$ 7,829</u>

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

Latham Group, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share amounts)
(unaudited)

	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 31, 2021	119,445,611	\$ 12	\$ 401,846	\$ (48,583)	\$ 370	\$ 353,645
Cumulative effect of adoption of new accounting standard - leases	—	—	—	(291)	—	(291)
Net loss	—	—	—	(2,840)	—	(2,840)
Foreign currency translation adjustments	—	—	—	—	1,220	1,220
Sale of common stock	13,800,000	1	269,099	—	—	269,100
Repurchase and retirement of common stock	(13,800,244)	(1)	(257,662)	—	—	(257,663)
Retirement of restricted stock	(53,961)	—	—	—	—	—
Issuance of common stock upon release of restricted stock units	78,341	—	—	—	—	—
Stock-based compensation expense	—	—	16,925	—	—	16,925
Balances at April 2, 2022	119,469,747	\$ 12	\$ 430,208	\$ (51,714)	\$ 1,590	\$ 380,096
Net income	—	—	—	4,303	—	4,303
Foreign currency translation adjustments	—	—	—	—	(3,917)	(3,917)
Repurchase and retirement of common stock under repurchase program	(2,026,231)	—	(15,000)	—	—	(15,000)
Issuance of common stock upon release of restricted stock units	104,042	—	—	—	—	—
Stock-based compensation expense	—	—	16,429	—	—	16,429
Balances at July 2, 2022	117,547,558	\$ 12	\$ 431,637	\$ (47,411)	\$ (2,327)	\$ 381,911
Net income	—	—	—	11,876	—	11,876
Foreign currency translation adjustments	—	—	—	—	(2,813)	(2,813)
Retirement of restricted stock	(426,424)	—	—	—	—	—
Stock-based compensation expense	—	—	7,061	—	—	7,061
Balances at October 1, 2022	117,121,134	\$ 12	\$ 438,698	\$ (35,535)	\$ (5,140)	\$ 398,035

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

Latham Group, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share amounts)
(unaudited)

	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at December 31, 2022	114,667,975	\$ 11	\$ 440,880	\$ (54,568)	\$ (3,533)	\$ 382,790
Net loss	—	—	—	(14,368)	—	(14,368)
Foreign currency translation adjustments	—	—	—	—	(144)	(144)
Issuance of common stock upon release of restricted stock units	22,078	—	—	—	—	—
Stock-based compensation expense	—	—	6,769	—	—	6,769
Balances at April 1, 2023	114,690,053	\$ 11	\$ 447,649	\$ (68,936)	\$ (3,677)	\$ 375,047
Net income	—	—	—	5,715	—	5,715
Foreign currency translation adjustments	—	—	—	—	(329)	(329)
Retirement of restricted stock	(54,271)	—	—	—	—	—
Issuance of common stock upon release of restricted stock units	98,974	—	—	—	—	—
Stock-based compensation expense	—	—	5,764	—	—	5,764
Balances at July 1, 2023	114,734,756	\$ 11	\$ 453,413	\$ (63,221)	\$ (4,006)	\$ 386,197
Net income	—	—	—	6,153	—	6,153
Foreign currency translation adjustments	—	—	—	—	(2,007)	(2,007)
Retirement of restricted stock	(101,179)	—	—	—	—	—
Issuance of common stock upon release of restricted stock units	122,368	—	—	—	—	—
Stock-based compensation expense	—	—	2,354	—	—	2,354
Balances at September 30, 2023	<u>114,755,945</u>	<u>\$ 11</u>	<u>\$ 455,767</u>	<u>\$ (57,068)</u>	<u>\$ (6,013)</u>	<u>\$ 392,697</u>

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

Latham Group, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022
Cash flows from operating activities:		
Net (loss) income	\$ (2,500)	\$ 13,339
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	29,784	28,834
Amortization of deferred financing costs and debt discount	1,290	1,140
Non-cash lease expense	5,874	5,596
Change in fair value of interest rate swaps	1,790	(4,203)
Stock-based compensation expense	14,887	40,415
Underwriting fees related to offering of common stock	—	11,437
Loss on extinguishment of debt	—	3,465
Bad debt expense	4,984	1,457
Other non-cash, net	34	6,496
Earnings from equity method investment	(2,468)	(2,591)
Distributions received from equity method investment	2,330	—
Changes in operating assets and liabilities:		
Trade receivables	(28,652)	(44,875)
Inventories	61,738	(59,139)
Prepaid expenses and other current assets	(25)	2,458
Income tax receivable	(1,539)	(2,051)
Other assets	(4,289)	(442)
Accounts payable	2,085	3,702
Accrued expenses and other current liabilities	(169)	(92)
Other long-term liabilities	2,969	290
Net cash provided by operating activities	<u>88,123</u>	<u>5,236</u>
Cash flows from investing activities:		
Purchases of property and equipment	(28,273)	(29,002)
Proceeds from the sale of property and equipment	—	24
Acquisitions of businesses, net of cash acquired	—	(384)
Net cash used in investing activities	<u>(28,273)</u>	<u>(29,362)</u>
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	—	320,125
Payments on long-term debt borrowings	(12,437)	(285,634)
Proceeds from borrowings on revolving credit facilities	48,000	25,000
Payments on revolving credit facilities	(48,000)	(25,000)
Deferred financing fees paid	—	(6,865)
Proceeds from the issuance of common stock	—	257,663
Repayments of finance lease obligations	(437)	—
Repurchase and retirement of common stock	—	(272,663)
Net cash (used in) provided by financing activities	<u>(12,874)</u>	<u>12,626</u>
Effect of exchange rate changes on cash	(1,489)	(1,832)
Net increase (decrease) in cash	<u>45,487</u>	<u>(13,332)</u>
Cash at beginning of period	32,626	43,952
Cash at end of period	<u>\$ 78,113</u>	<u>\$ 30,620</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 18,538	\$ 8,760
Income taxes paid, net	2,990	20,000
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 484	\$ 2,202
Capitalized internal-use software included in accounts payable – related party	—	800
Right-of-use operating and finance lease assets obtained in exchange for lease liabilities	5,766	45,876

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

Notes to Condensed Consolidated Financial Statements

1. NATURE OF THE BUSINESS

Latham Group, Inc. (the “Company”) wholly owns Latham Pool Products, Inc. (“Latham Pool Products”) (together, “Latham”), a designer, manufacturer, and marketer of in-ground residential swimming pools in North America, Australia, and New Zealand. Latham offers a portfolio of pools and related products, including in-ground swimming pools, pool liners, and pool covers.

On December 18, 2018, Latham Investment Holdings, LP, an investment fund managed by affiliates of Pamplona Capital Management (the “Sponsor”), Wynchurch Capital, L.P. and management acquired all of the outstanding equity interests of Latham Topco., Inc., a newly incorporated entity in the State of Delaware. Latham Topco, Inc. changed its name to Latham Group, Inc. on March 3, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The Company’s unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The unaudited condensed consolidated balance sheet at December 31, 2022 was derived from audited financial statements but does not include all disclosures required by GAAP. The accompanying unaudited condensed consolidated financial statements as of September 30, 2023 and for the fiscal and three fiscal quarters ended September 30, 2023 and October 1, 2022 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with Latham Group, Inc.’s audited consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2022 included in the Company’s 2022 Annual Report on Form 10-K, filed with the SEC on March 7, 2023 (the “Annual Report”). In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of these condensed consolidated financial statements, have been included. The Company’s results of operations for the fiscal quarter and three fiscal quarters ended September 30, 2023 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending December 31, 2023.

Use of Estimates

The preparation of the Company’s condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience, known trends, and other market-specific relevant factors that it believes to be reasonable under the circumstances. Estimates are evaluated on an ongoing basis and revised as there are changes in circumstances, facts, and experience. Changes in estimates are recorded in the period in which they become known.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation in the condensed consolidated financial statements and the accompanying notes.

Seasonality

Although the Company generally has demand for its products throughout the fiscal year, its business is seasonal and weather is one of the principal external factors affecting the business. Historically, net sales and net income are highest during the second and third fiscal quarters, representing the peak months of swimming pool use, pool installation, and remodeling and repair activities. Severe weather may also affect net sales in all periods.

Significant Accounting Policies

Refer to the Annual Report for a discussion of the Company's significant accounting policies, as updated below.

Recently Issued Accounting Pronouncements

The Company qualifies as "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 and has elected to "opt in" to the extended transition related to complying with new or revised accounting standards, which means that when a standard is issued or revised and it has different application dates for public and nonpublic companies, the Company will adopt the new or revised standard at the time nonpublic companies adopt the new or revised standard and will do so until such time that the Company either (i) irrevocably elects to "opt out" of such extended transition period or (ii) no longer qualifies as an emerging growth company. The Company may choose to early adopt any new or revised accounting standards whenever such early adoption is permitted for private companies.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes will result in earlier recognition of credit losses. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*, which narrowed the scope and changed the effective date for nonpublic entities for ASU 2016-13. The FASB subsequently issued supplemental guidance within ASU 2019-05, *Financial Instruments — Credit Losses (Topic 326): Targeted Transition Relief* ("ASU 2019-05"). ASU 2019-05 provides an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For public entities that are SEC filers, excluding entities eligible to be smaller reporting companies, ASU 2016-13 was effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. For all other entities, ASU 2016-13 was effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of this standard on January 1, 2023 did not have a material impact on the Company's condensed consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"), which amends ASC 805 by requiring acquiring entities to apply ASC 606 to recognize and measure contract assets and contract liabilities in a business combination. For public entities, ASU 2021-08 was effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022. For all other entities, ASU 2021-08 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments, with early adoption permitted. The Company adopted this standard early on January 1, 2023 and it did not have a material impact on the Company's condensed consolidated financial statements.

3. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

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Level 3 — Unobservable inputs that reflect the Company’s own assumptions incorporated into valuation techniques. These valuations require significant judgment.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When there is more than one input at different levels within the hierarchy, the fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessment of the significance of a particular input to the fair value measurement in its entirety requires substantial judgment and consideration of factors specific to the asset or liability. Level 3 inputs are inherently difficult to estimate. Changes to these inputs can have significant impact on fair value measurements. Assets and liabilities measured at fair value using Level 3 inputs are based on one or more of the following valuation techniques: market approach, income approach or cost approach. There were no transfers between fair value measurement levels during the three fiscal quarters ended September 30, 2023 or October 1, 2022.

Assets and liabilities measured at fair value on a nonrecurring basis

The Company’s non-financial assets such as goodwill, intangible assets, and property and equipment are measured at fair value upon acquisition and remeasured to fair value when an impairment charge is recognized. Such fair value measurements are based predominantly on Level 2 and Level 3 inputs.

Fair value of financial instruments

The Company considers the carrying amounts of cash, trade receivables, prepaid expenses and other current assets, accounts payable, and accrued expenses and other current liabilities to approximate fair value because of the short-term maturities of these instruments.

Term loan

The Company’s term loan (see Note 6) is carried at amortized cost; however, the Company estimates the fair value of the term loan for disclosure purposes. The fair value of the term loan is determined using inputs based on observable market data of a non-public exchange, which are classified as Level 2 inputs. The following table sets forth the carrying amount and fair value of its term loan (in thousands):

	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Term Loan	\$ 301,621	\$ 292,572	\$ 312,881	\$ 290,979

Interest rate swaps

The Company estimates the fair value of interest rate swaps (see Note 6) on a fiscal quarterly basis using Level 2 inputs, including the forward SOFR curve. The fair value is estimated by comparing (i) the present value of all future monthly fixed rate payments versus (ii) the variable payments based on the forward SOFR curve. As of September 30, 2023 and December 31, 2022, the net fair value of the Company’s interest rate swaps was an asset balance of \$1.7 million and \$3.5 million, respectively, which were recorded within other assets on the condensed consolidated balance sheets.

4. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The carrying amount of goodwill as of September 30, 2023 and as of December 31, 2022 was \$130.9 million and \$131.4 million, respectively. The change in the carrying value during the three fiscal quarters ended September 30, 2023 was solely because of fluctuations in foreign currency exchange rates.

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Based on the results of the qualitative assessment performed for the Company's one reporting unit, the Company determined that goodwill was not impaired at October 2, 2022. As a result of a decline in the Company's stock price, the Company plans to perform a quantitative assessment for the 2023 annual test as of October 1, 2023, which may result in a non-cash impairment charge during the fiscal quarter ended December 31, 2023.

Intangible Assets

Intangible assets, net as of September 30, 2023 consisted of the following (in thousands):

	September 30, 2023			
	Gross Carrying Amount	Foreign Currency Translation	Accumulated Amortization	Net Amount
Trade names and trademarks	\$ 148,100	\$ (554)	\$ 27,930	\$ 119,616
Patented technology	16,126	108	8,274	7,960
Technology	13,000	—	1,589	11,411
Pool designs	13,628	(172)	2,738	10,718
Franchise relationships	1,187	140	1,286	41
Dealer relationships	197,376	39	58,517	138,898
Order backlog	1,600	—	1,600	—
Non-competition agreements	2,476	—	2,371	105
	<u>\$ 393,493</u>	<u>\$ (439)</u>	<u>\$ 104,305</u>	<u>\$ 288,749</u>

The Company recognized \$6.6 million and \$19.9 million of amortization expense related to intangible assets during the fiscal quarter and three fiscal quarters ended September 30, 2023. The Company recognized \$7.2 million and \$21.5 million of amortization expense related to intangible assets during the fiscal quarter and three fiscal quarters ended October 1, 2022.

Intangible assets, net as of December 31, 2022 consisted of the following (in thousands):

	December 31, 2022			
	Gross Carrying Amount	Foreign Currency Translation	Accumulated Amortization	Net Amount
Trade names and trademarks	\$ 148,100	\$ (84)	\$ 22,982	\$ 125,034
Patented technology	16,126	37	6,959	9,204
Technology	13,000	—	939	12,061
Pool designs	13,628	(10)	2,037	11,581
Franchise relationships	1,187	45	1,064	168
Dealer relationships	197,376	13	46,699	150,690
Order backlog	1,600	—	1,600	—
Non-competition agreements	2,476	—	1,999	477
	<u>\$ 393,493</u>	<u>\$ 1</u>	<u>\$ 84,279</u>	<u>\$ 309,215</u>

The Company estimates that amortization expense related to definite-lived intangible assets will be as follows in each of the next five years and thereafter (in thousands):

Year Ended	Estimated Future Amortization Expense
Remainder of fiscal 2023	\$ 6,632
2024	25,708
2025	25,550
2026	25,550
2027	25,550
Thereafter	179,759
	<u>\$ 288,749</u>

5. INVENTORIES, NET

Inventories, net consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Raw materials	\$ 60,036	\$ 95,388
Finished goods	43,188	69,832
	<u>\$ 103,224</u>	<u>\$ 165,220</u>

6. LONG-TERM DEBT

The components of the Company's outstanding long-term debt obligations consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Term Loan	\$ 310,125	\$ 322,562
Revolving Credit Facility	—	—
Less: Unamortized discount and debt issuance costs	(8,504)	(9,681)
Total debt	301,621	312,881
Less: Current portion of long-term debt	(3,250)	(3,250)
Total long-term debt	<u>\$ 298,371</u>	<u>\$ 309,631</u>

On February 23, 2022, Latham Pool Products entered into an agreement (the "Credit Agreement") with Barclays Bank PLC, which provides a senior secured multicurrency revolving line of credit (the "Revolving Credit Facility") in an initial principal amount of \$75.0 million and a U.S. Dollar senior secured term loan facility (the "Term Loan") in an initial principal amount of \$325.0 million. On such date, proceeds under the Credit Agreement were used to terminate the previous credit agreement by repayment of \$294.0 million of outstanding debt thereunder and for general corporate purposes.

Revolving Credit Facility

The Revolving Credit Facility may be utilized to finance ongoing general corporate and working capital needs and permits Latham Pools Products to borrow loans in U.S. Dollars, Canadian Dollars, Euros and Australian Dollars. The Revolving Credit Facility matures on February 23, 2027. Loans outstanding under the Revolving Credit Facility denominated in U.S. Dollars and Canadian Dollars bear interest, at the borrower's option, at a rate per annum based on Term SOFR or CDO (each, as defined in the Credit Agreement), as applicable, plus a margin of 3.50%, or at a rate per annum based on the Base Rate or the Canadian Prime Rate (each, as defined in the Credit Agreement), plus a margin of 2.50%. Loans outstanding under the Revolving Credit Facility denominated in Euros or Australian Dollars bear interest based on EURIBOR or the AUD Rate (each, as defined in the Credit Agreement), respectively, plus a margin of 3.50%. A commitment fee accrues on any unused portion of the commitments under the Revolving Credit Facility. The commitment fee is due and payable quarterly in arrears, and initially was 0.375% per annum and thereafter accrues at a rate per annum ranging from 0.25% to 0.50%, depending on the First Lien Net Leverage Ratio (as defined in the Credit Agreement, the "First Lien Net Leverage Ratio"). Borrowings under the Revolving Credit Facility are due at maturity.

The Company incurred debt issuance costs of \$0.8 million related to the Revolving Credit Facility. The debt issuance costs were recorded within other assets on the condensed consolidated balance sheet as of the applicable period and are being amortized over the life of the Revolving Credit Facility.

The Company is required to meet certain financial covenants, including maintaining specific liquidity measurements. There are also negative covenants, including certain restrictions on the Company's and its subsidiaries' ability to incur additional indebtedness, create liens, make investments, consolidate, or merge with other entities, enter into transactions with affiliates, make prepayments with respect to certain indebtedness, make dividend payments, loans, or advances to the Company, declare dividends and make restricted payments and other distributions.

As of September 30, 2023, there were no outstanding borrowings on the Revolving Credit Facility and \$75.0 million was available for future borrowing.

Term Loan

The Term Loan matures on February 23, 2029. Loans outstanding under the Term Loan bear interest, at the borrower's option, at a rate per annum based on Term SOFR (as defined in the Credit Agreement), plus a margin ranging from 3.75% to 4.00%, depending on the First Lien Net Leverage Ratio, or based on the Base Rate (as defined in the Credit Agreement), plus a margin ranging from 2.75% to 3.00%, depending on the First Lien Net Leverage Ratio. Loans under the Term Loan are subject to scheduled quarterly amortization payments of \$812,500, equal to 0.25% of the initial principal amount of the Term Loan. The Credit Agreement contains customary mandatory prepayment provisions, including requirements to make mandatory prepayments with 50% of any excess cash flow and with 100% of the net cash proceeds from the incurrence of indebtedness not otherwise permitted to be incurred by the covenants, asset sales, and casualty and condemnation events, in each case, subject to customary exceptions.

Outstanding borrowings as of September 30, 2023 were \$301.6 million, net of unamortized discount and debt issuance costs of \$8.5 million. In connection with the Term Loan, the Company is subject to various negative, reporting, financial, and other covenants, including maintaining specific liquidity measurements.

As of September 30, 2023, the unamortized debt issuance costs and discount on the Term Loan were \$4.7 million and \$3.8 million, respectively. The effective interest rate was 10.26% at September 30, 2023, including the impact of the Company's interest rate swaps.

As of September 30, 2023, the Company was in compliance with all financial covenants under the Credit Agreement.

Interest Rate Risk

Interest rate risk associated with the Credit Agreement is mitigated partially through interest rate swaps.

The Company executed an interest rate swap on April 30, 2020. The swap had an effective date of May 18, 2020 and a termination date of May 18, 2023. In February 2022, the Company amended its interest rate swap to change the index rate from LIBOR to SOFR in connection with the entry into the Credit Agreement. Under the terms of the amended swap, the Company fixed its SOFR borrowing rate at 0.496% on a notional amount of \$200.0 million. The interest rate swap was not designated as a hedging instrument for accounting purposes (see Note 3).

Additionally, the Company entered into an interest rate swap that was executed on March 10, 2023. The swap has an effective date of May 18, 2023 and a termination date of May 18, 2026. Under the terms of the swap, the Company fixed its SOFR borrowing rate at 4.3725% on a notional amount of \$161.0 million. The interest rate swap is not designated as a hedging instrument for accounting purposes (see Note 3).

Debt Maturities

Principal payments due on the outstanding debt, excluding the Revolving Credit Facility, in the next five fiscal years, excluding any potential payments based on excess cash flow levels, are as follows (in thousands):

Year Ended	Term Loan	
Remainder of fiscal 2023	\$	813
2024		3,250
2025		3,250
2026		3,250
2027		3,250
Thereafter		296,312
	\$	<u>310,125</u>

The obligations under the Credit Agreement are guaranteed by certain wholly owned subsidiaries (the "Guarantors") of the Company as defined in the security agreement. The obligations under the Credit Agreement are secured by substantially all of the Guarantors' tangible and intangible assets, including their accounts receivables, equipment, intellectual property, inventory, cash and

cash equivalents, deposit accounts, and security accounts. The Credit Agreement also restricts payments and other distributions unless certain conditions are met, which could restrict the Company’s ability to pay dividends.

7. PRODUCT WARRANTIES

The warranty reserve activity consisted of the following (in thousands):

	Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022
Balance at the beginning of the fiscal year	\$ 3,399	\$ 4,909
Adjustments to reserve	4,737	5,479
Less: Settlements made (in cash or in kind)	(4,724)	(5,072)
Balance at the end of the fiscal quarter	\$ 3,412	\$ 5,316

8. LEASES

On January 1, 2022, the Company adopted ASU 2016-02, “Leases (Topic 842),” and the related amendments. The optional transition method of adoption was used, in which the cumulative effect of initially applying the new standard to existing leases was \$0.3 million to record the operating lease right-of-use assets and the related liabilities as of January 1, 2022. Under this method of adoption, the comparative information has not been revised and continues to be reported under the previously applicable lease accounting guidance.

For leases with initial terms greater than 12 months, the Company considers these right-of-use assets and records the related asset and obligation at the present value of lease payments over the term. For leases with initial terms equal to or less than 12 months, the Company does not consider them as right-of-use assets and instead considers them short-term lease costs that are recognized on a straight-line basis over the lease term. The Company’s leases may include escalation clauses, renewal options, and/or termination options that are factored into the Company’s determination of lease term and lease payments when it is reasonably certain the option will be exercised. The Company elected to take the practical expedient and not separate lease and non-lease components of contracts. The Company estimates an incremental borrowing rate to discount the lease payments based on information available at lease commencement because the implicit rate of the lease is generally not known.

The Company leases manufacturing facilities, office space, land, and certain vehicles and equipment under operating leases. The Company also leases certain vehicles and equipment under finance leases. The Company determines if an arrangement is a lease at inception. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The components of lease expense for the fiscal quarters ended September 30, 2023 and October 1, 2022 were as follows (in thousands):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Operating lease expense	\$ 2,577	\$ 2,295	\$ 7,245	\$ 6,799
Finance lease amortization of assets	199	21	465	28
Finance lease interest on lease liabilities	87	4	207	7
Short-term lease expense	96	58	246	90
Variable lease expense	315	141	910	445
Total lease expense	\$ 3,274	\$ 2,519	\$ 9,073	\$ 7,369

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Operating and finance lease right-of-use assets and lease-related liabilities as of September 30, 2023 and December 31, 2022 were as follows (in thousands):

	September 30, 2023	December 31, 2022	Classification
Lease right-of-use assets:			
Operating leases	\$ 31,934	\$ 38,308	Operating lease right-of-use assets
Finance leases	4,013	316	Other assets
Total lease right-of-use assets	\$ 35,947	\$ 38,624	
Lease-related liabilities			
Current			
Operating leases	\$ 6,895	\$ 6,923	Current operating lease liabilities
Finance leases	703	105	Accrued expenses and other current liabilities
Non-current			
Operating leases	26,121	32,391	Non-current operating lease liabilities
Finance leases	3,402	193	Other long-term liabilities
Total lease liabilities	\$ 37,121	\$ 39,612	

The table below presents supplemental information related to leases as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Weighted-average remaining lease term (years)		
Finance leases	5.5	2.8
Operating leases	5.9	6.5
Weighted-average discount rate		
Finance leases	8.2 %	5.4 %
Operating leases	5.0 %	4.9 %

The table below presents supplemental information related to the cash flows for operating leases recorded on the condensed consolidated statements of cash flows (in thousands):

	Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 5,763	\$ 5,249

The following table summarizes maturities of operating lease liabilities as of September 30, 2023 (in thousands):

	Operating Leases	Finance Leases	Total
Remainder of fiscal 2023	\$ 2,183	\$ 253	\$ 2,436
2024	8,108	1,013	9,121
2025	7,309	958	8,267
2026	5,789	865	6,654
2027	4,086	820	4,906
Thereafter	10,738	1,187	11,925
Total lease payments	38,213	5,096	43,309
Less: Interest	(5,197)	(991)	(6,188)
Present value of lease liability	\$ 33,016	\$ 4,105	\$ 37,121

9. NET SALES

The following table sets forth the Company's disaggregation of net sales by product line (in thousands):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
In-ground Swimming Pools	\$ 82,884	\$ 102,334	\$ 252,029	\$ 326,290
Covers	47,460	51,934	108,961	122,848
Liners	30,434	35,130	114,635	138,674
	<u>\$ 160,778</u>	<u>\$ 189,398</u>	<u>\$ 475,625</u>	<u>\$ 587,812</u>

10. INCOME TAXES

The effective income tax rate for the fiscal and three fiscal quarters ended September 30, 2023 was 52.1% and 140.7%, respectively, compared to 43.4% and 65.6% for the fiscal and three fiscal quarters ended October 1, 2022, respectively. The differences between the U.S. federal statutory income tax rate and the Company's effective income tax rates for the fiscal quarter ended September 30, 2023 and the fiscal quarter ended October 1, 2022 were primarily attributable to the discrete impacts of stock-based compensation expense for which there is no associated tax benefit.

On October 15, 2023, the statute of limitations expired with respect to the Company's 2019 U.S. Federal income tax return for which the Company has a liability related to uncertain tax positions recorded. As a result of the expiration of the statute of limitations, the Company will release the uncertain tax position liability with a corresponding net tax benefit of \$7.5 million (a gross tax benefit of \$10.7 million from the liability release offset by tax expense of \$3.2 million from establishing a valuation allowance on an associated deferred tax asset) during the fourth fiscal quarter of 2023.

The Inflation Reduction Act ("IRA") was effective beginning in 2023. Key provisions from the IRA include the implementation of a 15% corporate alternative minimum tax for corporations with book income in excess of \$1 billion, an excise tax on the fair market value of stock buybacks (offset by the fair market value of stock issued in the same tax year), and significant tax incentives for energy and climate initiatives. Enactment of the new law has not impacted the Company's financial condition, results of operations or cash flows for the period ended September 30, 2023 and the Company does not expect a material impact on our future results at this time. The Company will continue to monitor any impacts of further guidance on the IRA as released and assess any impacts as applicable.

11. STOCKHOLDERS' EQUITY

Offering of Common Stock

On January 11, 2022, the Company completed an offering of 13,800,000 shares of common stock, par value \$0.0001 per share, including the exercise in full by the underwriters of their option to purchase up to 1,800,000 additional shares of common stock, at a public offering price of \$19.50 per share. The Company received proceeds of \$257.7 million from this offering, net of \$11.4 million of underwriting fees. The proceeds of \$257.7 million were used to purchase 13,800,000 shares of common stock from certain of the Company's stockholders, primarily investment funds managed by the Sponsor and Wynnchurch Capital, L.P., and also a small percentage of shares of common stock owned by some of the Company's directors and executive officers.

Repurchase Program

On May 10, 2022, the Company approved a stock repurchase program (the "Repurchase Program"), which authorized the Company to repurchase up to \$100 million of the Company's shares of common stock over the next three years. The Company may effect these repurchases in open market transactions, privately negotiated purchases, or other acquisitions. The Company is not obligated to repurchase any of its shares of its common stock under the Repurchase Program and the timing and amount of any repurchases will depend on market conditions, the Company's stock price, alternative uses of capital, the terms of the Company's debt instruments, and other factors.

As of September 30, 2023, \$77.0 million remained available for share repurchases pursuant to the Repurchase Program. The Company did not repurchase any shares of its common stock during the fiscal quarter ended September 30, 2023. The Company accounts for the excess of the repurchase price over the par value of shares acquired as a reduction to additional paid-in capital.

12. STOCK-BASED COMPENSATION

On April 12, 2021, the Company's stockholders approved the 2021 Omnibus Equity Incentive Plan (the "2021 Omnibus Equity Plan"), which became effective on April 22, 2021, upon pricing of its initial public offering. The 2021 Omnibus Equity Plan provides for the issuance of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based and cash-based awards. The maximum grant date fair value of cash and equity awards that may be awarded to a non-employee director under the 2021 Omnibus Equity Plan during any one fiscal year, together with any cash fees paid to such non-employee director during such fiscal year, is \$750,000.

On May 2, 2023, at the 2023 annual meeting of stockholders the Company, the stockholders approved the first amendment (the "First Amendment") to the Latham Group, Inc. 2021 Omnibus Equity Plan, which was previously approved by the Board of Directors of the Company. The First Amendment became effective upon stockholder approval, and provides for (i) an increase by 8,000,000 shares of the share pool, i.e. the maximum number of shares of the Company's common stock that may be issued pursuant to awards granted under the 2021 Omnibus Equity Plan, (ii) a prohibition on recycling of shares withheld or remitted to pay taxes for all awards, (iii) a minimum vesting period of one year for all awards, with an exception for shares representing 5% of the share pool, and (iv) a prohibition on the transfer of stock options and stock appreciation rights for value or to third-party financial institutions without stockholder approval.

Except as amended by the First Amendment, the other terms of the 2021 Omnibus Equity Plan remain in full force and effect. Subsequent to the First Amendment, the maximum aggregate number of shares reserved for issuance under the 2021 Omnibus Equity Plan is 21,170,212 shares.

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The following table summarizes the Company's stock-based compensation expense (in thousands):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Cost of sales	\$ 143	\$ 730	\$ (57)	\$ 3,046
Selling, general, and administrative	2,211	6,331	14,944	37,369
	<u>\$ 2,354</u>	<u>\$ 7,061</u>	<u>\$ 14,887</u>	<u>\$ 40,415</u>

As of September 30, 2023, total unrecognized stock-based compensation expense related to all unvested stock-based awards was \$11.2 million, which is expected to be recognized over a weighted-average period of 1.3 years.

The following table sets forth the significant assumptions used in the Black-Scholes option-pricing model on a weighted-average basis to determine the fair value of stock option awards granted:

	Three Fiscal Quarters Ended October 1, 2022
Risk-free interest rate	2.04 %
Expected volatility	39.67 %
Expected term (in years)	6.25
Expected dividend yield	0.00 %

No stock options were granted under this plan during the fiscal quarter ended September 30, 2023.

The following table sets forth the significant assumptions used in the Black-Scholes option-pricing model on a weighted-average basis to determine the fair value of stock appreciation rights awards granted:

	Three Fiscal Quarters Ended September 30, 2023
Risk-free interest rate	3.45 %
Expected volatility	40.29 %
Expected term (in years)	6.25
Expected dividend yield	0.00 %

Restricted Stock Awards

The following table represents the Company's restricted stock awards activity during the three fiscal quarters ended September 30, 2023:

	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2023	2,576,219	\$ 19.00
Granted	—	—
Vested	(1,239,520)	19.00
Forfeited	(155,450)	19.00
Outstanding at September 30, 2023	<u>1,181,249</u>	<u>\$ 19.00</u>

Restricted Stock Units

The following table represents the Company’s restricted stock units activity during the three fiscal quarters ended September 30, 2023:

	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2023	617,941	\$ 8.37
Granted	2,232,040	3.23
Vested	(243,420)	10.42
Forfeited	(247,685)	3.94
Outstanding at September 30, 2023	<u>2,358,876</u>	<u>\$ 3.76</u>

Stock Options

The following table represents the Company’s stock option activity during the three fiscal quarters ended September 30, 2023:

	Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2023	1,914,670	\$ 14.85		
Granted	—	—		
Exercised	—	—		
Forfeited	(325,433)	11.80		
Outstanding at September 30, 2023	<u>1,589,237</u>	<u>\$ 15.47</u>	<u>7.86</u>	<u>\$ —</u>
Vested and expected to vest at September 30, 2023	<u>1,589,237</u>	<u>\$ 15.47</u>	<u>7.86</u>	<u>\$ —</u>
Options exercisable at September 30, 2023	<u>583,527</u>	<u>\$ 16.58</u>	<u>7.13</u>	<u>\$ —</u>

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the stock options and the fair value of the Company’s common stock for those stock options that had exercise prices lower than the fair value of the Company’s common stock.

Stock Appreciation Rights

During the fiscal quarter ended April 1, 2023, as a portion of the annual equity award grants to the Company’s executive officers, the Compensation Committee of the Board of Directors approved stock appreciation rights for an aggregate of 790,181 shares of the Company’s common stock, with a strike price of \$3.24 per share (the “Contingent Grants”). At the time of such approval, the Company did not have enough shares of the Company’s common stock in the share pool under the 2021 Omnibus Equity Plan to support such grant. As of April 1, 2023, the Contingent Grants remained subject to stockholder approval of the First Amendment. On May 2, 2023, following stockholder approval of the First Amendment, the foregoing stock appreciation right awards became effective without condition.

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The following table represents the Company's stock appreciation rights activity during the three fiscal quarters ended September 30, 2023:

	Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2023	—	\$ —		
Granted	790,181	3.24		
Exercised	—	—		
Forfeited	(93,256)	3.24		
Outstanding at September 30, 2023	<u>696,925</u>	<u>\$ 3.24</u>	<u>9.59</u>	<u>\$ —</u>
Vested and expected to vest at September 30, 2023	<u>696,925</u>	<u>\$ 3.24</u>	<u>9.59</u>	<u>\$ —</u>
Stock appreciation rights exercisable at September 30, 2023	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

The aggregate intrinsic value of stock appreciation rights is calculated as the difference between the strike price of the stock appreciation rights and the fair value of the Company's common stock for those stock appreciation rights that had strike prices lower than the fair value of the Company's common stock.

No stock appreciation rights were granted under this plan during the fiscal quarter ended September 30, 2023.

13. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share attributable to common stockholders was calculated as follows (in thousands, except share and per share data):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Numerator:				
Net income (loss) attributable to common stockholders	\$ 6,153	\$ 11,876	\$ (2,500)	\$ 13,339
Denominator:				
Weighted-average common shares outstanding				
Basic	113,538,533	113,171,655	112,629,851	113,521,425
Diluted	114,656,761	113,202,846	112,629,851	114,867,164
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.05	\$ 0.10	\$ (0.02)	\$ 0.12
Diluted	\$ 0.05	\$ 0.10	\$ (0.02)	\$ 0.12

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As of September 30, 2023 and December 31, 2022, 113,574,696 and 112,091,756 shares of common stock were issued and outstanding for accounting purposes, respectively.

The following table includes the number of shares that may be dilutive common shares in the future that were not included in the computation of diluted net income (loss) per share because the effect was anti-dilutive:

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Restricted stock awards	64,329	3,842,873	909,375	1,280,958
Restricted stock units	57,885	212,183	220,255	108,570
Stock options	1,644,520	1,963,331	1,753,740	1,655,462
Stock appreciation rights	738,940	—	422,874	—

14. RELATED PARTY TRANSACTIONS

BrightAI Services

Starting in 2020, BrightAI has rendered services to the Company, for which the cost has been capitalized as internal-use software. A co-founder of BrightAI Services has served on the Company's Board of Directors since December 9, 2020. In December 2022, the Company executed an additional agreement with BrightAI for the provision of hardware to run the technology developed by BrightAI and the Company. During the three fiscal quarters ended September 30, 2023 and the fiscal year ended December 31, 2022, the Company incurred \$0.8 million and \$0.2 million, respectively, associated with services performed by BrightAI, which is recorded as construction in progress within property and equipment, net on the condensed consolidated balance sheet as of September 30, 2023. As of September 30, 2023 and December 31, 2022, the Company had accounts payable related to BrightAI of \$0.0 million and \$0.4 million, respectively.

Expense Reimbursement

The Company entered into a Stockholders' Agreement with the Sponsor and Wynnchurch Capital, L.P. on April 27, 2021. The Stockholders' Agreement requires the Company to reimburse the Sponsor and Wynnchurch Capital, L.P. for their reasonable out-of-pocket costs and expenses in connection with monitoring and overseeing their investment in the Company.

The Company recognized no amount and \$0.2 million for the reimbursement of out-of-pocket costs and expenses to Wynnchurch Capital, L.P. and no amounts for the reimbursement of out-of-pocket costs and expenses to the Sponsor during the fiscal quarter and three fiscal quarters ended September 30, 2023, respectively. The Company recognized \$0.2 million for the reimbursement of out-of-pocket costs and expenses to the Sponsor and \$0.1 million for the reimbursement of out-of-pocket costs and expenses to the Wynnchurch Capital, L.P. during the fiscal quarter and the three fiscal quarters ended October 1, 2022. As of both September 30, 2023 and December 31, 2022, there was less than \$0.1 million outstanding amounts payable to the Sponsor and no outstanding amounts payable to Wynnchurch Capital, L.P.

15. RESTRUCTURING COSTS

During the second and third fiscal quarters of 2023, the Company initiated an additional cost reduction plan focused on efforts to improve efficiencies and decrease costs. The plan involved a reduction in the Company's workforce as well as closures of various manufacturing facilities. The Company expects to incur charges for employee severance and related costs, as well as fixed asset and facility related expenses, of approximately \$2.8 million. During the quarter ended September 30, 2023, the Company recognized costs related to the plan totaling \$1.8 million, comprised primarily of \$1.0 million for severance and related costs and \$0.8 million relating to the facility closures. These charges were included in cost of sales and selling, general, and administrative expenses in the condensed consolidated statements of operations. The remaining costs under the plan of approximately \$1.0 million are expected to be incurred and recognized in the fourth fiscal quarter of 2023. The Company had an exit or disposal cost related liability of \$0.3 million as of September 30, 2023 and no liability as of December 31, 2022.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 7, 2023 (the "Annual Report").

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report other than statements of historical fact may constitute forward-looking statements, including statements regarding our future operating results and financial position, our business strategy and plans, business and market trends, our objectives for future operations, macroeconomic and geopolitical conditions, the implementation of our cost reduction plans and expected annualized cost savings, a potential non-cash impairment charge for goodwill, and the sufficiency of our cash balances, working capital and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs. These forward-looking statements are generally identified by the use of forward-looking terminology, including the terms "anticipate," "believe," "confident," "continue," "could," "estimate," "expect," "intend," "likely," "may," "plan," "possible," "potential," "predict," "project," "should," "target," "will," "would" and, in each case, their negative or other various or comparable terminology. These statements involve known and unknown risks, uncertainties, assumptions and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including those set forth under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in the Annual Report and as described in other subsequent reports we file or furnish with the SEC, including elsewhere in this Quarterly Report on Form 10-Q. For similar reasons, our past results may not be a reliable indicator of future performance and trends. We encourage you to read this report and our other filings with the SEC carefully. You also should be aware that these risk factors and other information may not described every risk that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may affect us. We operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. Although we believe that the expectations reflected in the forward-looking statements are reasonable and our expectations based on third-party information and projections are from sources that management believes to be reputable, we cannot guarantee future results, levels of activities, performance, or achievements.

These forward-looking statements reflect our views with respect to future events as of the date of this Quarterly Report on Form 10-Q or the date specified herein, and we have based these forward-looking statements on our current expectations and projections about future events and trends. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we undertake no obligation to update or review publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments will cause our views to change. Our forward-looking statements do not reflect the potential impact of any future acquisitions, merger, dispositions, joint ventures, or investments we may undertake. We qualify all of our forward-looking statements by these cautionary statements.

Overview

We are the largest designer, manufacturer, and marketer of in-ground residential swimming pools in North America, Australia, and New Zealand. We hold the #1 position in North America in every product category in which we compete. We believe that we are the most sought-after brand in the pool industry and the only pool company that has established a direct relationship with the homeowner. We are Latham, The Pool Company™.

With an operating history that spans over 65 years, we offer the industry's broadest portfolio of pools and related products, including in-ground swimming pools, pool liners, and pool covers.

We have a heritage of innovation. In an industry that has traditionally marketed on a business-to-business basis (pool manufacturer to dealer), we pioneered the first "direct-to-homeowner" digital and social marketing strategy that has transformed the homeowner's purchase journey. Through this marketing strategy, we are able to create demand for our pools and to provide high quality, purchase-ready consumer leads to our dealer partners.

Partnership with our dealers is integral to our collective success, and we have enjoyed long-tenured relationships averaging over 14 years. We support our dealer network with business development tools, co-branded marketing programs, and in-house training.

Our operations consist of approximately 2,000 employees across over 30 locations. The full resources of our Company are dedicated to designing and manufacturing high-quality pool products, with the homeowner in mind, and to position ourselves as a value-added partner to our dealers.

We conduct our business as one operating and reportable segment that designs, manufactures, and markets in-ground swimming pools, liners, and covers.

Recent Developments

Highlights for the fiscal quarter ended September 30, 2023

- Decrease in net sales of 15.1%, or \$28.6 million, to \$160.8 million for the fiscal quarter ended September 30, 2023, compared to \$189.4 million for the fiscal quarter ended October 1, 2022.
- Decrease in net income of \$5.7 million to \$6.2 million and representing a 3.8% net income margin for the fiscal quarter ended September 30, 2023, compared to net income of \$11.9 million for the fiscal quarter ended October 1, 2022.
- Decrease in Adjusted EBITDA (as defined below) of \$6.2 million to \$36.1 million for the fiscal quarter ended September 30, 2023, compared to \$42.3 million for the fiscal quarter ended October 1, 2022.

Highlights for the three fiscal quarters ended September 30, 2023

- Decrease in net sales of 19.1%, or \$112.2 million, to \$475.6 million for the three fiscal quarters ended September 30, 2023, compared to \$587.8 million for the three fiscal quarters ended October 1, 2022.
- Decrease in net income of \$15.8 million to a net loss of \$2.5 million and representing a 0.5% net loss margin for the three fiscal quarters ended September 30, 2023, compared to net income of \$13.3 million for the three fiscal quarters ended October 1, 2022.
- Decrease in Adjusted EBITDA (as defined below) of \$60.8 million to \$78.1 million for the three fiscal quarters ended September 30, 2023, compared to \$138.9 million for the three fiscal quarters ended October 1, 2022.

Business Update

Market conditions continue to evolve. As anticipated, ongoing macroeconomic challenges are weighing on consumer spending and demand. This is resulting in a decline in U.S. new in-ground residential pool installations in 2023 and we expect this to continue into 2024. We continue to make progress executing our strategy to drive material conversion from concrete to fiberglass swimming pools, supported by our continued momentum on our lead generation efforts and dealer strategy. We continue to take a disciplined approach to capital investments, with the focus on the completion of previously announced projects. This includes the completion of our Kingston, Ontario facility in April 2023 as well as our acquired fiberglass manufacturing assets in Seminole, Oklahoma.

We have responded to economic uncertainty with immediate actions to reduce our costs. In the fourth fiscal quarter of 2022, we approved a cost reduction plan and expect to realize \$12.0 million of savings during the 2023 fiscal year. During the second and third fiscal quarters of 2023, we initiated additional plans to further reduce our manufacturing overhead, headcount, and discretionary spend. We expect to realize an additional \$12.0 million of annualized savings from the plans implemented in 2023, with \$6.0 million expected to be realized this fiscal year and therefore a total of \$18.0 million of cost savings in 2023, with the remaining \$6.0 million expected to be realized in 2024.

Leadership Transition

On October 24, 2023, we announced that Oliver Gloe was appointed as our Chief Financial Officer effective November 13, 2023. J. Mark Borseth concurrently will step down as our Interim Chief Financial Officer and resume his previous role of Strategic Advisor through the end of 2023.

Key Performance Indicators

Net Sales

We derive our revenue from the design, manufacture, and sale of in-ground swimming pools, pool covers, and pool liners. We sell fiberglass pools, which are one-piece manufactured fiberglass pools that are ready to be installed in a consumer's backyard, and custom vinyl pools, which are manufactured pools that are made out of non-corrosive steel, aluminum, or composite polymer frame, on top of which a vinyl liner is installed. We sell liners for the interior surface of vinyl pools (including pools that were not manufactured by us). We also sell all-season covers, which are winterizing mesh or solid pool covers that protect pools against debris and cold or inclement weather, and automatic safety covers for pools that can be operated with a switch.

Our sales are made through one-step and two-step business-to-business distribution channels. In our one-step distribution channel, we sell our products directly to dealers who, in turn, sell our products to consumers. In our two-step distribution channel, we sell our products to distributors who warehouse our products and sell them on to dealers, who ultimately sell our products to consumers.

Each product shipped is considered to be one performance obligation. With the exception of our extended service warranties and our custom product contracts, we recognize our revenue when control of our promised goods is transferred to our customers, either upon shipment or arrival at our customer's destination depending upon the terms of the purchase order. Sales are recognized net of any estimated rebates, returns, allowances, cash discounts, or other sales incentives. Revenue that is derived from our extended service warranties, which are separately priced and sold, is recognized over the term of the contracts. Revenue from custom products is recognized over time utilizing an input method that compares the cost of cumulative work-in-process to date to the most current estimates for the entire cost of the performance obligation.

Gross Margin

Gross margin is gross profit as a percentage of our net sales. Gross margin depends upon several factors, such as the prices we charge buyers, changes in prices of raw materials, the volume and relative sales mix among product lines, and plant performance, among other factors. Gross margin is also impacted by the costs of distribution and occupancy costs, which can vary.

Our gross profit is variable in nature and generally follows changes in net sales. The components of our cost of sales may not be comparable to the components of cost of sales or similar measures of other companies. As a result, our gross profit and gross margin may not be comparable to similar data made available by other companies.

Adjusted EBITDA and Adjusted EBITDA Margin

We use Adjusted EBITDA and Adjusted EBITDA margin to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, to utilize as a significant performance metric in our annual management incentive bonus plan compensation and to compare our performance against that of other peer companies using similar measures. We define Adjusted EBITDA as net income (loss) plus (i) depreciation and amortization, (ii) interest expense, net, (iii) income tax (benefit) expense, (iv) loss (gain) on sale and disposal of property and equipment, (v) restructuring charges, (vi) stock-based compensation expense, (vii) unrealized losses (gains) on foreign currency transactions, (viii) strategic initiative costs, (ix) acquisition and integration related costs, (x) loss on extinguishment of debt, (xi) underwriting fees related to offering of common stock, (xii) Odessa fire and (xiii) other items that we do not believe are indicative of our core operating performance. We believe excluding these items allows for better comparison of our financial results across reporting periods.

We define Adjusted EBITDA margin as Adjusted EBITDA divided by net sales. Our definitions of Adjusted EBITDA and Adjusted EBITDA margin may not be comparable to similarly titled measures of other companies.

For a discussion of Adjusted EBITDA and Adjusted EBITDA margin, including how such non-GAAP measures provide useful information to investors, how management utilizes them and the limitations on their use, and the reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable GAAP financial measure, and our calculation of Adjusted EBITDA margin, see “—Non-GAAP Financial Measures” below.

Results of Operations

Fiscal Quarter Ended September 30, 2023 Compared to Fiscal Quarter Ended October 1, 2022

The following table summarizes our results of operations for the fiscal quarter ended September 30, 2023 and October 1, 2022:

	Fiscal Quarter Ended					
	September 30, 2023	% of Net Sales	October 1, 2022 (dollars in thousands)	% of Net Sales	Change Amount	Change in % of Net Sales
Net sales	\$ 160,778	100.0 %	\$ 189,398	100.0 %	\$ (28,620)	0.0 %
Cost of sales	112,633	70.1 %	130,521	68.9 %	(17,888)	1.2 %
Gross profit	48,145	29.9 %	58,877	31.1 %	(10,732)	(1.2)%
Selling, general, and administrative expense	23,431	14.6 %	26,749	14.1 %	(3,318)	0.5 %
Amortization	6,635	4.1 %	7,156	3.8 %	(521)	0.3 %
Income from operations	18,079	11.2 %	24,972	13.2 %	(6,893)	(2.0)%
Other expense:						
Interest expense, net	5,980	3.7 %	4,264	2.3 %	1,716	1.4 %
Loss on extinguishment of debt	—	— %	—	— %	—	0.0 %
Other expense, net	1,031	0.7 %	1,052	0.5 %	(21)	0.2 %
Total other expense, net	7,011	4.4 %	5,316	2.8 %	1,695	1.6 %
Earnings from equity method investment	1,771	1.2 %	1,329	0.7 %	442	0.5 %
Income before income taxes	12,839	8.0 %	20,985	11.1 %	(8,146)	(3.1)%
Income tax expense	6,686	4.2 %	9,109	4.8 %	(2,423)	(0.6)%
Net income	\$ 6,153	3.8 %	\$ 11,876	6.3 %	\$ (5,723)	(2.5)%
Adjusted EBITDA ^(a)	\$ 36,083	22.4 %	\$ 42,252	22.3 %	\$ (6,169)	0.1 %

(a) Adjusted EBITDA is a non-GAAP measure. See “Non-GAAP Financial Measures” for a reconciliation to net income, the most directly comparable GAAP measure, and for information regarding our use of Adjusted EBITDA.

Net Sales

Net sales were \$160.8 million for the fiscal quarter ended September 30, 2023, compared to \$189.4 million for the fiscal quarter ended October 1, 2022. The \$28.6 million, or 15.1%, decrease in net sales was because of a \$32.8 million decrease in sales volume, partially offset by a \$4.2 million increase from higher pricing. The volume decrease was primarily driven by continued macroeconomic challenges. The decrease in total net sales of \$28.6 million across our product lines consisted of \$19.5 million for in-ground swimming pools, \$4.7 million for liners and \$4.5 million for covers.

Cost of Sales and Gross Margin

Cost of sales was \$112.6 million for the fiscal quarter ended September 30, 2023, compared to \$130.5 million for the fiscal quarter ended October 1, 2022. Gross margin decreased by 1.2%, to 29.9% of net sales for the fiscal quarter ended September 30, 2023, compared to 31.1% of net sales for the fiscal quarter ended October 1, 2022. The \$17.9 million, or 13.7%, decrease in cost of sales was primarily the result of the decrease in sales volume and a \$0.6 million decrease in non-cash stock-based compensation expense. The 1.2% decrease in gross margin was primarily driven by reduced net sales, the right sizing of our inventory and the sell-through of higher cost inventory, partially offset by some material cost deflation, benefits from pricing levels and improving fixed costs as a result of our cost reduction actions.

Selling, General, and Administrative Expense

Selling, general, and administrative expense was \$23.4 million for the fiscal quarter ended September 30, 2023, compared to \$26.7 million for the fiscal quarter ended October 1, 2022, and increased as a percentage of net sales by 0.5%. The \$3.3 million, or 12.4%, decrease in selling, general, and administrative expense was primarily driven by a \$4.1 million decrease in non-cash stock-based compensation expense and lower employee incentive accruals.

Amortization

Amortization was \$6.6 million for the fiscal quarter ended September 30, 2023, compared to \$7.2 million for the fiscal quarter ended October 1, 2022. The \$0.6 million, or 7.3%, decrease in amortization was driven by certain definite-lived intangible assets becoming fully amortized during the fiscal year ended December 31, 2022.

Interest Expense, net

Interest expense, net was \$6.0 million for the fiscal quarter ended September 30, 2023, compared to \$4.3 million for the fiscal quarter ended October 1, 2022. The \$1.7 million, or 40.2%, increase in interest expense, net was primarily the result of a higher effective interest rate, compared to the fiscal quarter ended October 1, 2022, partially offset by the change in the fair value of our interest rate swaps. Interest expense, net for the fiscal quarter ended September 30, 2023 was impacted by an unrealized gain of \$1.1 million related to the change in fair value of our interest rate swaps compared to an unrealized gain of \$0.3 million for the fiscal quarter ended October 1, 2022.

Other Expense, Net

Other expense, net was \$1.0 million for the fiscal quarter ended September 30, 2023, compared to \$1.1 million for fiscal quarter ended October 1, 2022. The \$0.1 million decrease in other expense was primarily driven by a favorable change in net foreign currency transaction gains and losses associated with our international subsidiaries.

Earnings from Equity Method Investment

Earnings from our equity method investment in Premier Pools & Spa were \$1.8 million for the fiscal quarter ended September 30, 2023, compared to \$1.3 million for the fiscal quarter ended October 1, 2022, because of the financial performance of Premier Pools & Spa.

Income Tax Expense

Income tax expense was \$6.7 million for the fiscal quarter ended September 30, 2023, compared to income tax expense of \$9.1 million for the fiscal quarter ended October 1, 2022. Our effective tax rate was 52.1% for the fiscal quarter ended September 30, 2023, compared to 43.4% for the fiscal quarter ended October 1, 2022. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for both the fiscal quarters ended September 30, 2023 and October 1, 2022 was primarily attributable to the discrete impact of stock-based compensation expense for which there is no associated tax benefit.

Net Income

Net income was \$6.2 million for the fiscal quarter ended September 30, 2023, compared to \$11.9 million for the fiscal quarter ended October 1, 2022. The \$5.7 million, or 48.2%, decrease in net income was primarily because of the factors described above.

Net Income Margin

Net income margin was 3.8% for the fiscal quarter ended September 30, 2023, compared to 6.3% for the fiscal quarter ended October 1, 2022. The 2.5% decrease in net income margin was driven by a \$5.7 million decrease in net income and a \$28.6 million decrease in net sales, compared to the fiscal quarter ended October 1, 2022 because of the factors described above.

Adjusted EBITDA

Adjusted EBITDA was \$36.1 million for the fiscal quarter ended September 30, 2023, compared to \$42.3 million for the fiscal quarter ended October 1, 2022. The \$6.2 million, or 14.6%, decrease in Adjusted EBITDA was primarily because of the decrease in net sales, partially offset by the reduction in SG&A expenses, as well as the other factors described above.

Adjusted EBITDA Margin

Adjusted EBITDA margin was 22.4% for the fiscal quarter ended September 30, 2023, compared to 22.3% for the fiscal quarter ended October 1, 2022. The 0.1% increase in Adjusted EBITDA margin was primarily because of a \$6.2 million decrease in Adjusted EBITDA and a \$28.6 million decrease in net sales, compared to the fiscal quarter ended October 1, 2022, which were impacted by the factors described above.

Three Fiscal Quarters Ended September 30, 2023 Compared to Three Fiscal Quarters Ended October 1, 2022

The following table summarizes our results of operations for the three fiscal quarters ended September 30, 2023 and October 1, 2022:

	Three Fiscal Quarters Ended					
	September 30, 2023	% of Net Sales	October 1, 2022 (dollars in thousands)	% of Net Sales	Change Amount	Change in % of Net Sales
Net sales	\$ 475,625	100.0 %	\$ 587,812	100.0 %	\$ (112,187)	0.0 %
Cost of sales	343,877	72.3 %	390,674	66.5 %	(46,797)	5.8 %
Gross profit	131,748	27.7 %	197,138	33.5 %	(65,390)	(5.8)%
Selling, general, and administrative expense	86,697	18.2 %	113,778	19.4 %	(27,081)	(1.2)%
Underwriting fees related to offering of common stock	—	— %	11,437	1.8 %	(11,437)	(1.8)%
Amortization	19,902	4.2 %	21,504	3.7 %	(1,602)	0.5 %
Income from operations	25,149	5.3 %	50,419	8.6 %	(25,270)	(3.3)%
Other expense:						
Interest expense, net	21,270	4.5 %	9,193	1.6 %	12,077	2.9 %
Loss on extinguishment of debt	—	— %	3,465	0.6 %	(3,465)	(0.6)%
Other expense, net	205	— %	1,614	0.2 %	(1,409)	(0.2)%
Total other expense, net	21,475	4.5 %	14,272	2.4 %	7,203	2.1 %
Earnings from equity method investment	2,468	0.5 %	2,591	0.4 %	(123)	0.1 %
Income before income taxes	6,142	1.3 %	38,738	6.6 %	(32,596)	(5.3)%
Income tax expense	8,642	1.8 %	25,399	4.3 %	(16,757)	(2.5)%
Net (loss) income	\$ (2,500)	(0.5)%	\$ 13,339	2.3 %	\$ (15,839)	(2.8)%
Adjusted EBITDA ^(a)	\$ 78,115	16.4 %	\$ 138,867	23.6 %	\$ (60,752)	(7.2)%

(a) Adjusted EBITDA is a non-GAAP measure. See “Non-GAAP Financial Measures” for a reconciliation to net income (loss), the most directly comparable GAAP measure, and for information regarding our use of Adjusted EBITDA.

Net Sales

Net sales were \$475.6 million for the three fiscal quarters ended September 30, 2023, compared to \$587.8 million for the three fiscal quarters ended October 1, 2022. The \$112.2 million, or 19.1%, decrease in net sales was because of a \$125.9 million decrease in sales volume, partially offset by a \$13.7 million increase from higher pricing. The volume decrease was due to continued macroeconomic challenges. The decrease in total net sales of \$112.2 million across our product lines consisted of \$74.3 million for in-ground swimming pools, \$24.0 million for liners and \$13.9 million in covers.

Cost of Sales and Gross Margin

Cost of sales was \$343.9 million for the three fiscal quarters ended September 30, 2023, compared to \$390.7 million for the three fiscal quarters ended October 1, 2022. Gross margin decreased by 5.8%, to 27.7% of net sales for the three fiscal quarters ended September 30, 2023 compared to 33.5% of net sales for the three fiscal quarters ended October 1, 2022. The \$46.8 million, or 12.0%, decrease in cost of sales was primarily the result of the decrease in sales volume and a \$3.1 million decrease in non-cash stock-based compensation expense. The 5.8% decrease in gross margin was primarily driven by reduced net sales, sell-through of higher cost inventory, the right sizing of our inventory and negative fixed cost leverage from year-over-year volume declines, partially offset by benefits from our pricing levels, some material cost deflation and improved productivity.

Selling, General, and Administrative Expense

Selling, general, and administrative expense was \$86.7 million for the three fiscal quarters ended September 30, 2023, compared to \$113.8 million for the three fiscal quarters ended October 1, 2022, and decreased as a percentage of net sales by 1.2%. The \$27.1 million, or 23.8%, decrease in selling, general, and administrative expense was primarily driven by a \$22.4 million decrease in non-cash stock-based compensation expense, lower incentive accruals, and wages on lower headcount.

Underwriting Fees Related to Offering of Common Stock

Underwriting fees related to our offering of common stock were \$11.4 million for the three fiscal quarters ended October 1, 2022, related to the offering that was completed in January 2022.

Amortization

Amortization was \$19.9 million for the three fiscal quarters ended September 30, 2023, compared to \$21.5 million for the three fiscal quarters ended October 1, 2022. The \$1.6 million, or 7.4%, decrease in amortization was driven by certain definite-lived intangible assets becoming fully amortized during the fiscal year ended December 31, 2022.

Interest Expense, net

Interest expense, net was \$21.3 million for the three fiscal quarters ended September 30, 2023, compared to \$9.2 million for the three fiscal quarters ended October 1, 2022. The \$12.1 million, or 131.4%, increase in interest expense, net was primarily the result of the change in the fair value of our interest rate swaps and a higher effective interest rate, compared to the three fiscal quarters ended October 1, 2022. Interest expense, net for the three fiscal quarters ended September 30, 2023 was impacted by an unrealized loss of \$1.8 million related to the change in fair value of our interest rate swaps compared to an unrealized gain of \$4.2 million for the three fiscal quarters ended October 1, 2022.

Loss on Extinguishment of Debt

Loss on extinguishment of debt was \$3.5 million for the three fiscal quarters ended October 1, 2022, related to our debt refinancing completed in February 2022.

Other Expense, Net

Other expense, net was \$0.2 million for the three fiscal quarters ended September 30, 2023, compared to \$1.6 million for the three fiscal quarters ended October 1, 2022. The \$1.4 million decrease in other expense was primarily driven by a favorable change in net foreign currency transaction gains and losses associated with our international subsidiaries.

Earnings from Equity Method Investment

Earnings from our equity method investment in Premier Pools & Spa were \$2.5 million for the three fiscal quarters ended September 30, 2023, compared to \$2.6 million for the three fiscal quarters ended October 1, 2022, because of the financial performance of Premier Pools & Spa.

Income Tax Expense

Income tax expense was \$8.6 million for the three fiscal quarters ended September 30, 2023, compared to income tax expense of \$25.4 million for the three fiscal quarters ended October 1, 2022. Our effective tax rate was 140.7% for the three fiscal quarters ended September 30, 2023, compared to 65.6% for the three fiscal quarters ended October 1, 2022. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for both the fiscal quarters ended September 30, 2023 and October 1, 2022 was primarily attributable to the discrete impact of stock-based compensation expense for which there is no associated tax benefit.

Net (Loss) Income

Net loss was \$2.5 million for the three fiscal quarters ended September 30, 2023, compared to \$13.3 million of net income for the three fiscal quarters ended October 1, 2022. The \$15.8 million, or 118.7%, increase in net loss was primarily because of the factors described above.

Net (Loss) Income Margin

Net loss margin was 0.5% for the three fiscal quarters ended September 30, 2023, compared to net income margin of 2.3% for the three fiscal quarters ended October 1, 2022. The 2.8% increase in net loss margin was driven by a \$15.8 million increase in net loss and a \$112.2 million decrease in net sales, compared to the three fiscal quarters ended October 1, 2022 because of the factors described above.

Adjusted EBITDA

Adjusted EBITDA was \$78.1 million for the three fiscal quarters ended September 30, 2023, compared to \$138.9 million for the three fiscal quarters ended October 1, 2022. The \$60.8 million, or 43.7%, decrease in Adjusted EBITDA was primarily because of the decrease in net sales, as well as the other factors described above.

Adjusted EBITDA Margin

Adjusted EBITDA margin was 16.4% for the three fiscal quarters ended September 30, 2023, compared to 23.6% for the three fiscal quarters ended October 1, 2022. The 7.2% decrease in Adjusted EBITDA margin was primarily because of a \$60.8 million decrease in Adjusted EBITDA and a \$112.2 million decrease in net sales, compared to the three fiscal quarters ended October 1, 2022, which were impacted by the other factors described above.

Non-GAAP Financial Measures

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA and Adjusted EBITDA margin are key metrics used by management and our Board of Directors to assess our financial performance. Adjusted EBITDA and Adjusted EBITDA margin are also frequently used by analysts, investors, and other interested parties to evaluate companies in our industry, when considered alongside other GAAP measures. Management believes it is useful to investors and analysts to evaluate these non-GAAP measures for the same reasons and on the same basis as management and our Board of Directors use them to evaluate our operating results. We use Adjusted EBITDA and Adjusted EBITDA margin to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, to utilize as a significant performance metric in our annual management incentive bonus plan compensation, and to compare our performance against that of other companies using similar measures. We have presented Adjusted EBITDA and Adjusted EBITDA margin solely as supplemental disclosures because we believe they allow for a more complete analysis of results of operations and assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance, such as (i) depreciation and amortization, (ii) interest expense, net, (iii) income tax (benefit) expense, (iv) loss (gain) on sale and disposal of property and equipment, (v) restructuring charges, (vi) stock-based compensation expense, (vii) unrealized losses (gains) on foreign currency transactions, (viii) strategic initiative costs, (ix) acquisition and integration related costs, (x) loss on extinguishment of debt, (xi) underwriting fees related to offering of common stock, (xii) Odessa fire and (xiii) other items that we do not believe are indicative of our core operating performance.

Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures and should not be considered as alternatives to net income (loss) as a measure of financial performance or any other performance measure derived in accordance with GAAP, and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA and Adjusted EBITDA margin, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. There can be no assurance that we will not modify the presentation of Adjusted EBITDA and Adjusted EBITDA margin in the future, and any such modification may be material. Our presentation of Adjusted EBITDA and Adjusted EBITDA margin should not be construed to imply that our future results will be unaffected by any such adjustments. In addition, other companies, including companies in our industry, may not calculate Adjusted EBITDA and Adjusted EBITDA margin at all or may calculate Adjusted EBITDA and Adjusted EBITDA margin differently and accordingly, are not necessarily comparable to similarly entitled measures of other companies, which reduces the usefulness of Adjusted EBITDA and Adjusted EBITDA margin as tools for comparison.

Adjusted EBITDA and Adjusted EBITDA margin have their limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that Adjusted EBITDA and Adjusted EBITDA margin:

- do not reflect every expenditure, future requirements for capital expenditures or contractual commitments;
- do not reflect changes in our working capital needs;
- do not reflect the interest expense, net, or the amounts necessary to service interest or principal payments, on our outstanding debt;
- do not reflect income tax (benefit) expense, and because the payment of taxes is part of our operations, tax expense is a necessary element of our costs and ability to operate;
- do not reflect non-cash stock-based compensation, which will remain a key element of our overall compensation package; and
- do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations.

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Although depreciation and amortization are eliminated in the calculation of Adjusted EBITDA and Adjusted EBITDA margin, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA and Adjusted EBITDA margin do not reflect any costs of such replacements.

Management compensates for these limitations by primarily relying on our GAAP results, while using Adjusted EBITDA and Adjusted EBITDA margin as supplements to the corresponding GAAP financial measures.

The following table provides a reconciliation of our net income (loss) to Adjusted EBITDA for the periods presented and the calculation of Adjusted EBITDA margin:

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(dollars in thousands)			
Net income (loss)	\$ 6,153	\$ 11,876	\$ (2,500)	\$ 13,339
Depreciation and amortization	10,500	9,560	29,784	28,834
Interest expense, net	5,980	4,264	21,270	9,193
Income tax expense	6,686	9,109	8,642	25,399
Loss on sale and disposal of property and equipment	118	22	131	146
Restructuring charges ^(a)	1,818	287	2,615	406
Stock-based compensation expense ^(b)	2,354	7,061	14,887	40,415
Unrealized losses on foreign currency transactions ^(c)	1,400	1,103	932	2,817
Strategic initiative costs ^(d)	1,063	532	3,065	3,019
Acquisition and integration related costs ^(e)	—	—	11	257
Loss on extinguishment of debt ^(f)	—	—	—	3,465
Underwriting fees related to offering of common stock ^(g)	—	—	—	11,437
Odessa fire ^(h)	11	(1,523)	(760)	—
Other ⁽ⁱ⁾	—	(39)	38	140
Adjusted EBITDA	<u>\$ 36,083</u>	<u>\$ 42,252</u>	<u>\$ 78,115</u>	<u>\$ 138,867</u>
Net sales	\$ 160,778	\$ 189,398	\$ 475,625	\$ 587,812
Net income (loss) margin	3.8 %	6.3 %	(0.5)%	2.3 %
Adjusted EBITDA margin	<u>22.4 %</u>	<u>22.3 %</u>	<u>16.4 %</u>	<u>23.6 %</u>

(a) Represents costs related to a cost reduction plan that includes severance and other costs for our executive management changes and additional costs related to our cost reduction plan announced in 2023, which includes further actions to reduce our manufacturing overhead by reducing headcount in addition to facility shutdowns.

(b) Represents non-cash stock-based compensation expense.

(c) Represents unrealized foreign currency transaction losses associated with our international subsidiaries.

(d) Represents fees paid to external consultants for our strategic initiatives.

(e) Represents acquisition and integration costs primarily related to the acquisition of Radiant, the equity investment in Premier Pools & Spas, as well as other costs related to potential transactions.

(f) Represents the loss on extinguishment of debt in connection with our debt refinancing on February 23, 2022.

(g) Represents underwriting fees related to our offering of common stock that was completed in January 2022.

(h) Represents costs incurred and insurance recoveries in excess of costs incurred for the period related to a production facility fire in Odessa, Texas.

(i) Other costs consist of other discrete items as determined by management, primarily including (i) fees paid to external advisors for various matters, (ii) non-cash adjustments to record the step-up in the fair value of inventory related to the acquisition of Radiant, which was amortized through cost of sales in the condensed consolidated statements of operations, and (iii) other items.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are net cash provided by operating activities and availability under our Revolving Credit Facility (as defined below). Historically, we have funded working capital requirements, capital expenditures, payments related to acquisitions, and debt service requirements with internally generated cash on hand, borrowings under our credit facilities, and the issuance of shares of our common stock. Our primary cash needs are to fund working capital, capital expenditures, debt service requirements, any acquisitions, or investments we may undertake, and any share repurchases we may make. As of September 30, 2023, we had \$78.1 million of cash, \$301.6 million of outstanding borrowings and an additional \$75.0 million of borrowing availability under our Revolving Credit Facility.

Our primary working capital requirements are for the purchase of inventory, payroll, rent, facility costs and other selling, general, and administrative costs. Our working capital requirements fluctuate during the fiscal year, driven primarily by seasonality and the timing of raw material purchases. Our capital expenditures are primarily related to growth, including production capacity, storage, and delivery equipment. We are in the midst of a multi-year capital plan to invest in our facilities, technology, and systems.

We believe that our existing cash, cash generated from operations and availability under our Revolving Credit Facility will be adequate to fund our operating expenses and capital expenditure requirements over the next 12 months, as well as our longer-term liquidity needs. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect. We may issue debt or equity securities, which may provide an additional source of liquidity. However, there can be no assurance equity or debt financing will be available to us when we need it or, if available, the terms will be satisfactory to us and not dilutive to our then-current stockholders.

Our Indebtedness

On February 23, 2022, Latham Pool Products, Inc. (“Latham Pool Products”), our wholly owned subsidiary, entered into an agreement (the “Credit Agreement”) with Barclays Bank PLC, which provides a senior secured multicurrency revolving line of credit in an initial principal amount of \$75.0 million (the “Revolving Credit Facility”) and a U.S. Dollar senior secured term loan (the “Term Loan”) in an initial principal amount of \$325.0 million (the “Refinancing”). On such date, proceeds under the Credit Agreement were used to repay and replace \$294.0 million under, and terminate, the previous credit agreement and for general corporate purposes.

Revolving Credit Facility

The Revolving Credit Facility may be utilized to finance ongoing general corporate and working capital needs and permits Latham Pools Products to borrow loans in U.S. Dollars, Canadian Dollars, Euros and Australian Dollars. The Revolving Credit Facility matures on February 23, 2027. Loans outstanding under the Revolving Credit Facility denominated in U.S. Dollars and Canadian Dollars bear interest, at the borrower’s option, at a rate per annum based on Term SOFR or CDO (each, as defined in the Credit Agreement), as applicable, plus a margin of 3.50%, or at a rate per annum based on the Base Rate or the Canadian Prime Rate (each, as defined in the Credit Agreement), plus a margin of 2.50%. Loans outstanding under the Revolving Credit Facility denominated in Euros or Australian Dollars bear interest based on EURIBOR or the AUD Rate (each, as defined in the Credit Agreement), respectively, plus a margin of 3.50%. A commitment fee accrues on any unused portion of the commitments under the Revolving Credit Facility. The commitment fee is due and payable quarterly in arrears, and initially was 0.375% per annum and thereafter accrues at a rate per annum ranging from 0.25% to 0.50%, depending on the First Lien Net Leverage Ratio (as defined in the Credit Agreement, the “First Lien Net Leverage Ratio”). The Revolving Credit Facility is not subject to amortization.

We are also required to meet certain financial covenants, including maintaining specific liquidity measurements. There are also negative covenants, including certain restrictions on our ability and the ability of our subsidiaries to incur additional indebtedness, create liens, make investments, consolidate, or merge with other entities, enter into transactions with affiliates, make prepayments with respect to certain indebtedness, make dividend payments, loans, or advances to the Company, declare dividends and make restricted payments and other distributions.

As of September 30, 2023, we had no outstanding borrowings under the Revolving Credit Facility and \$75.0 million was available for future borrowing.

Term Loan

The Term Loan matures on February 23, 2029. Loans outstanding under the Term Loan bear interest, at the borrower's option, at a rate per annum based on Term SOFR (as defined in the Credit Agreement), plus a margin ranging from 3.75% to 4.00%, depending on the First Lien Net Leverage Ratio, or based on the Base Rate (as defined in the Credit Agreement), plus a margin ranging from 2.75% to 3.00%, depending on the First Lien Net Leverage Ratio. Loans under the Term Loan are subject to scheduled quarterly amortization payments equal to 0.25% of the initial principal amount of the Term Loan.

The obligations under the Credit Agreement are guaranteed by certain of our wholly owned subsidiaries as defined in the security agreement. The obligations under the Credit Agreement are secured by substantially all of the guarantors' tangible and intangible assets, including, but not limited to, their accounts receivables, equipment, intellectual property, inventory, cash and cash equivalents, deposit accounts and security accounts. The Credit Agreement also restricts payments and other distributions unless certain conditions are met, which could restrict our ability to pay dividends.

As of September 30, 2023, we had \$301.6 million of outstanding borrowings under the Term Loan.

As of September 30, 2023, we were in compliance with all covenants under the Revolving Credit Facility and the Term Loan.

Share Repurchase Program

On May 10, 2022, we approved a stock repurchase program (the "Repurchase Program"), which authorized us to repurchase up to \$100 million of our shares of common stock over the next three years. We may effect these repurchases in open market transactions, privately negotiated purchases or other acquisitions. We are not obligated to repurchase any of our outstanding shares under the Repurchase Program and the timing and amount of any repurchases will depend on market conditions, our stock price, alternative uses of capital, the terms of our debt instruments and other factors. We did not repurchase any shares of our common stock during the fiscal quarter ended September 30, 2023. As of September 30, 2023, \$77.0 million remained available for share repurchases pursuant to our Repurchase Program.

Cash Flows

The following table summarizes our sources and uses of cash for each of the periods presented:

	Three Fiscal Quarters Ended	
	September 30, 2023	October 1, 2022
	(in thousands)	
Net cash provided by operating activities	\$ 88,123	\$ 5,236
Net cash used in investing activities	(28,273)	(29,362)
Net cash (used in) provided by financing activities	(12,874)	12,626
Effect of exchange rate changes on cash	(1,489)	(1,832)
Net increase (decrease) in cash	<u>\$ 45,487</u>	<u>\$ (13,332)</u>

Operating Activities

During the three fiscal quarters ended September 30, 2023, operating activities provided \$88.1 million of cash. Net loss, after adjustments for non-cash items, provided cash of \$56.0 million. Cash provided by operating activities was further driven by changes in our operating assets and liabilities, which provided \$32.1 million. Net cash provided by changes in our operating assets and liabilities for the three fiscal quarters ended September 30, 2023 consisted primarily of a \$61.7 million decrease in inventories, a \$3.0 million increase in other long-term liabilities and a \$2.1 million increase in accounts payable partially offset by a \$28.7 million increase in trade receivables, a \$4.3 million increase in other assets, a \$1.5 million increase in income tax receivable, a \$0.3 million increase in prepaid expenses and other current assets and a \$0.2 million decrease in accrued expenses and other current liabilities. The change in trade receivables was primarily driven by the timing of net sales, and the decrease in inventories was primarily driven by efforts to meet demand outlook while maintaining lead times and service levels. The changes in accrued expenses and other current liabilities and accounts payable were primarily driven by volume of purchases and timing of payments.

During the three fiscal quarters ended October 1, 2022, operating activities provided \$5.2 million of cash. Net income, after adjustments for non-cash items, provided cash of \$105.4 million. Cash provided by operating activities was further driven by changes in our operating assets and liabilities, which used \$100.1 million. Net cash used in changes in our operating assets and liabilities for the three fiscal quarters ended October 1, 2022 consisted primarily of a \$44.9 million increase in trade receivables, a \$59.1 million increase in inventories, a \$2.1 million increase in income tax receivable, a \$0.4 million increase in other assets and a \$0.1 million decrease in accrued expenses and other current liabilities, partially offset by a \$2.5 million decrease in prepaid expenses and other current assets, a \$3.7 million increase in accounts payable, and a \$0.3 million increase in other long-term liabilities. The change in trade receivables was primarily due to the timing of, and increase in, net sales, and the increase in inventories was primarily due to a strategic decision to carry more inventory, as well as higher costs. The changes in accrued expenses and other current liabilities and accounts payable were primarily due to volume of purchases and timing of payments.

Investing Activities

During the three fiscal quarters ended September 30, 2023, investing activities used \$28.3 million of cash, consisting of purchases of property and equipment for \$28.3 million. The purchase of property and equipment was primarily to expand capacity for production, especially for fiberglass pools.

During the three fiscal quarters ended October 1, 2022, investing activities used \$29.4 million of cash, primarily consisting of purchases of property and equipment for \$29.0 million and the settlement of the net working capital adjustment related to the acquisition of Radiant for \$0.4 million. The purchase of property and equipment was primarily to expand capacity for inventory production in order to meet increasing customer demand.

Financing Activities

During the three fiscal quarters ended September 30, 2023, financing activities used \$12.9 million of cash, primarily consisting of repayments on revolving credit facilities of \$48.0 million, repayments on long-term debt borrowings of \$12.4 million, and repayments of finance lease obligations of \$0.4 million, partially offset by borrowings on revolving credit facilities of \$48.0 million.

During the three fiscal quarters ended October 1, 2022, financing activities provided \$12.6 million of cash, primarily consisting of proceeds from long-term debt borrowings in connection with the Refinancing of \$320.1 million, proceeds from the sale of common stock of \$257.7 million and borrowings on revolving credit facilities of \$25.0 million, partially offset by repayments on long-term debt borrowings of \$285.6 million, the repurchase and retirement of common stock of \$272.7 million, repayments on revolving credit facility borrowings of \$25.0 million, and deferred financing fees paid of \$6.9 million.

Contractual Obligations

There have been no material changes, outside of the ordinary course of business, to our contractual obligations during the three fiscal quarters ended September 30, 2023 from those described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations” in our Annual Report.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. Throughout the preparation of these financial statements, we have made estimates and assumptions that impact the reported amounts of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and revenues and expenses during the reporting period. Our critical accounting policies are described below and under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our Annual Report. These estimates are based on historical results, trends, and other assumptions we believe to be reasonable. We evaluate these estimates on an ongoing basis. Actual results may differ from estimates. For additional information about our critical accounting policies and estimates, see the disclosure included in our Annual Report as well as Note 2 - Summary of Significant Accounting Policies in the notes to the condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Impairment of Goodwill

We evaluate goodwill for impairment at least annually, or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. We have selected the first day of the fourth fiscal quarter to perform our annual goodwill impairment testing.

We may assess our goodwill for impairment initially using a qualitative approach, or step zero, to determine whether conditions exist to indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying value. The qualitative assessment requires significant judgments by management about economic conditions including the entity’s operating environment, its industry and other market considerations, entity-specific events related to financial performance or loss of key personnel, and other events that could impact the reporting unit. If management concludes, based on assessment of relevant events, facts, and circumstances, that it is more likely than not that the reporting unit’s fair value is greater than its carrying value, no further impairment testing is required.

If our assessment of qualitative factors indicates that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then a quantitative assessment is performed. We may also elect to initially perform a quantitative analysis instead of starting with step zero. The quantitative analysis requires comparing the carrying value of the reporting unit, including goodwill, to its fair value. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and no further testing is required. If the carrying amount of the reporting unit exceeds its fair value, there is an impairment of goodwill and an impairment loss is recorded. We calculate the impairment loss by comparing the fair value of the reporting unit less the carrying value, including goodwill. The goodwill impairment is limited to the carrying value of the goodwill.

The qualitative factors we assessed as part of our annual impairment testing included economic conditions, industry and market considerations, cost factors, overall financial performance, and other entity specific events. In addition, we considered our market capitalization based on quoted market prices of our securities on the Nasdaq Global Select Market, adjusted for the effect of a control premium as contemplated by ASC 350.

Based on the result of the qualitative assessment performed for our one reporting unit, we determined that goodwill was not impaired at October 2, 2022. As a result of a decline in our stock price, we plan to perform a quantitative assessment for our 2023

annual test as of October 1, 2023, which may result in a non-cash impairment charge during the fiscal quarter ended December 31, 2023.

Recently Issued and Adopted Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position, results of operations or cash flows is disclosed in Note 2 to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential loss that may result from market changes associated with our business or with an existing or forecasted financial transaction. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. We are exposed to changes in interest rates and foreign currency exchange rates because we finance certain operations through variable rate debt instruments and denominate some of our transactions in foreign currencies. Changes in these rates may have an impact on future cash flow and earnings. We manage these risks through normal operating and financing activities.

During the three fiscal quarters ended September 30, 2023, there have been no material changes, other than the interest rate swap discussed below, to the information included under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report.

Interest Rate Risk

We entered into an additional interest rate swap that was executed on March 10, 2023. The swap has an effective date of May 18, 2023 and a termination date of May 18, 2026. Under the terms of the swap, we fixed our SOFR borrowing rate on a notional amount of \$161.0 million. The interest rate swap is not designated as a hedging instrument for accounting purposes.

We had executed an interest rate swap on April 30, 2020. The swap had an effective date of May 18, 2020 and a termination date of May 18, 2023. In February 2022, we amended our interest rate swap to change the index rate from LIBOR to SOFR in connection with the entry into the Credit Agreement. The interest rate swap was not designated as a hedging instrument for accounting purposes. This swap was replaced by the swap discussed above.

An increase or decrease of 1% in the effective interest rate, giving effect related to interest rate swaps, as of September 30, 2023, would cause an increase or decrease to annual interest expense, net of approximately \$1.4 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2023. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2023.

Changes in Internal Control over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of a control system must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements related to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations and businesses that cover a wide range of matters, including, among others, contract and employment claims, personal injury claims, intellectual property claims, product liability claims and warranty claims. Currently, there are no claims or proceedings against us that we believe will have a material adverse effect on our business, financial condition, results of operations or cash flows. Further, no material legal proceedings were terminated, settled, or otherwise resolved during the fiscal quarter ended September 30, 2023. However, the results of any current or future litigation cannot be predicted with certainty and, regardless of the outcome, we may incur significant costs and experience a diversion of management resources as a result of litigation.

Item 1A. Risk Factors

We have disclosed under the heading “Risk Factors” in our Annual Report, the risk factors that materially affect our business, financial condition, and results of operations. There have been no material changes from the risk factors previously disclosed in our Annual Report other than the risk factor set forth below. You should carefully consider the risks, uncertainties, assumptions and other important factors set forth in the Annual Report and other subsequent reports we file or furnish with the SEC, including this Quarterly Report on Form 10-Q, any of which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied. For similar reasons, our past results may not be a reliable indicator of future performance and trends. You also should be aware that these risk factors and other information may not describe every risk that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may affect us. We operate in a very competitive and rapidly changing environment and new risks emerge from time to time, and we anticipate that subsequent events and developments will cause our views to change. Any of these known or emerging factors may materially adversely affect our business, financial condition, and operating results, as well as the trading price of our common stock.

If our goodwill, other intangibles or fixed assets become impaired, we may be required to record a significant charge to earnings.

We had approximately \$130.9 million of goodwill and \$288.7 million of acquired intangible assets on our condensed consolidated balance sheet as of September 30, 2023, which represented 15.1% and 33.4% of our total assets, respectively, as of such date. Under U.S. generally accepted accounting principles (“GAAP”), the carrying amount of our goodwill is tested at least annually for impairment on the first day of the fourth fiscal quarter. On each quarter end date, we assess whether recent events or changes in circumstances constitute a triggering event requiring us to assess whether goodwill, other intangibles or fixed assets may be impaired before the annual testing date. Occurrences that may constitute a change in circumstances include, but are not limited to, a sustained decline in our share price and market capitalization, decreases in expected future cash flows and slower growth rates in our industry. We review our fixed assets and other finite life intangibles for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Under GAAP, if we determine that goodwill, other intangibles or fixed assets are impaired, we will be required to write down these assets to fair value. Any write-down would have a negative effect on our consolidated financial statements and may be material. Based on the results of the qualitative assessment performed for our one reporting unit, we determined that goodwill was not impaired at October 2, 2022. As a result of a decline in our stock price, we plan to perform a quantitative assessment for our 2023 annual test as of October 1, 2023, which may result in a non-cash impairment charge during the fiscal quarter ended December 31, 2023.

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

On May 10, 2022, we approved a stock repurchase program, which authorized us to repurchase up to \$100.0 million of our shares of common stock over the next three years. We may effect these repurchases in open market transactions, privately negotiated purchases or other acquisitions. We are not obligated to repurchase any of our shares of our common stock under the program and the timing and amount of any repurchases will depend on market conditions, our stock price, alternative uses of capital, the terms of our debt instruments and other factors. As of September 30, 2023, \$77.0 million remained available for share repurchases pursuant to the repurchase program. We did not repurchase any shares of our common stock during the fiscal quarter ended September 30, 2023.

Item 5. Other Information

Rule 10b5-1 Trading Plans – Directors and Section 16 Officers

During the 13 weeks ended September 30, 2023, none of the Company's directors or Section 16 officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any "non-Rule 10b5-1 trading arrangement."

Item 6. Exhibits

Exhibit No.	Description
10.1†	Form of Amendment to Employment Agreement (Specified Executive Officers) (incorporated by reference to Exhibit 10.1 to Latham Group, Inc.'s Current Report on Form 8-K filed with the SEC on July 25, 2023 (File No. 001-40358))
10.2†	Form of Offer Letter (Specified Executive Officers) (incorporated by reference to Exhibit 10.2 to Latham Group, Inc.'s Current Report on Form 8-K filed with the SEC on July 25, 2023 (File No. 001-40358))
10.3†	Latham Pool Products, Inc. Officer Severance Plan (incorporated by reference to Exhibit 10.3 to Latham Group, Inc.'s Current Report on Form 8-K filed with the SEC on July 25, 2023 (File No. 001-40358))
10.4†	Amendment to Employment Agreement, by and between J. Mark Borseth and Latham Group, Inc., dated July 24, 2023 (incorporated by reference to Exhibit 10.4 to Latham Group, Inc.'s Current Report on Form 8-K filed with the SEC on July 25, 2023 (File No. 001-40358))
31.1*	Certification of CEO, pursuant to SEC Rule 13a-14(a) and 15d-14(a)
31.2*	Certification of CFO, pursuant to SEC Rule 13a-14(a) and 15d-14(a)
32.1**	Certification by the CEO, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification by the CFO, 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH**	Inline XBRL Taxonomy Extension Schema Document
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104**	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

† Indicates management contract or compensatory plan.

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Date November 7, 2023

LATHAM GROUP, INC.

/s/ James Mark Borseth

James Mark Borseth

Interim Chief Financial Officer

(Principal Financial Officer)

LATHAM GROUP, INC.

I, James Mark Borseth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Latham Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Securities Exchange Act Rule 13-a15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2023

/s/ James Mark Borseth

James Mark Borseth
Interim Chief Financial Officer
Latham Group, Inc.

LATHAM GROUP, INC.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 Latham Group, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Scott M. Rajeski, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

November 7, 2023

/s/ Scott M. Rajeski

Scott M. Rajeski
Chief Executive Officer and President
Latham Group, Inc.

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 1350 of Title 18 of the United States Code and, accordingly, is not being filed with the U.S. Securities and Exchange Commission as part of the Report and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report, irrespective of any general incorporation language contained in such filing).

LATHAM GROUP, INC.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 Latham Group, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James Mark Borseth, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

November 7, 2023

/s/ James Mark Borseth

James Mark Borseth
Interim Chief Financial Officer
Latham Group, Inc.

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 1350 of Title 18 of the United States Code and, accordingly, is not being filed with the U.S. Securities and Exchange Commission as part of the Report and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report, irrespective of any general incorporation language contained in such filing).
