

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

FORM 10-Q
(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2022
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 001-40979

Solo Brands, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	87-1360865
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
1001 Mustang Dr. Grapevine, TX	76051
Address of Principal Executive Offices	Zip Code

(817) 900-2664
Registrant's Telephone Number, Including Area Code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value per share	DTC	New York Stock Exchange

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

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

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

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

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

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

As of November 7, 2022, there were 63,591,467 shares of the registrant's Class A common stock, \$0.001 par value per share, outstanding and 32,111,495 shares of the registrant's Class B common stock, \$0.001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts contained in this Quarterly Report may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “forecasts,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions. Forward-looking statements contained in this Quarterly Report include, but are not limited to statements regarding our future results of operations and financial position, macroeconomic conditions, industry and business trends, business strategy, plans, market growth and our objectives for future operations.

The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties 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, but not limited to, our ability to manage our future growth effectively, our ability to expand into additional markets; our ability to maintain and strengthen our brand to generate and maintain ongoing demand for our products, our ability to cost-effectively attract new customers and retain our existing customers; our failure to maintain product quality and product performance at an acceptable cost, the impact of product liability and warranty claims and product recalls; the highly competitive market in which we operate, business interruptions resulting from geopolitical actions, natural disasters, or impacts of the COVID-19 pandemic, risks associated with our international operations, problems with, or loss of, our suppliers or an inability to obtain raw materials, the ability of our stockholders to influence corporate matters, and the important factors discussed in Part I, Item 1A. “Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2021 (“2021 Form 10-K”) filed with Securities and Exchange Commission (the “SEC”) on March 30, 2022, as any such factors may be updated from time to time in its other filings with the SEC. The forward-looking statements in this Quarterly Report are based upon information available to us as of the date of this Quarterly Report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report and have filed as exhibits to this Quarterly Report with the understanding that our actual future results, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this Quarterly Report. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report, whether as a result of any new information, future events or otherwise.

WHERE YOU CAN FIND MORE INFORMATION

We may use our website as a distribution channel of material information about the Company including through press releases, investor presentations, and notices of upcoming events. We intend to utilize the investor relations section of our website at <https://investors.solobrand.com> as a channel of distribution to reach public investors and as a means of disclosing material non-public information for complying with disclosure obligations under Regulation FD. We also intend to use certain social media channels, including, but not limited to, Twitter, Facebook and LinkedIn, as a means of communicating with the public, our customers and investors about our Company, our products, and other matters. While not all the information that the Company posts to its website and social media channels may be deemed to be of a material nature, some information may be, and we therefore encourage investors, the media, and others interested in our Company to review the information we make public in these locations.

All periodic and current reports, registration statements and other filings that we have filed or furnished to the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act, are available free of charge from the SEC’s website (www.sec.gov) and on our website at <https://investors.solobrand.com>. Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC.

Any reference to our website or social media channels does not constitute incorporation by reference of the information contained on or available through our website, and you should not consider such information to be a part of the periodic and current reports, registration statements or other filings that we file or furnish with the SEC from time to time.

Basis of Presentation

This Quarterly Report includes a period prior to the completion of the initial public offering (“IPO”) on October 28, 2021. In connection with the completion of the IPO, we effected certain reorganization transactions collectively referred to as the “Reorganization Transactions.” Unless stated otherwise, this Quarterly Report contains information before the IPO about Solo Stove Holdings, LLC, which we refer to as “Holdings.”

We also made three acquisitions (collectively, the “Acquisitions”) in 2021 in which we acquired Oru Kayak, Inc. (“Oru”), International Surf Ventures, Inc. (“ISLE”), and Chubbies, Inc. (“Chubbies”). See the notes to the unaudited consolidated financial statements included elsewhere in this Quarterly Report for more information regarding the Acquisitions.

Accordingly, unless the context otherwise requires, references to:

- “we,” “us,” “our,” the “Company,” “Solo Brands, Inc.” and similar references refer: (i) following the consummation of the Reorganization Transactions, including the IPO, to Solo Brands, Inc., and, unless otherwise stated, all of its subsidiaries, Holdings, and, unless otherwise stated, all of its subsidiaries, and (ii) on or prior to the completion of the Reorganization Transactions, including the IPO, to Holdings and, unless otherwise stated, all of its subsidiaries. In each case, such references include the companies acquired in the Acquisitions from the date of the applicable Acquisition. Unless otherwise indicated, (i) information presented for a period entirely preceding an Acquisition does not give effect to the consummation of such Acquisition and reflects only the subsidiaries and brands owned prior to such Acquisition and (ii) information presented for a period following an Acquisition or during which an Acquisition occurred includes the impact of the Acquisition from the date of such Acquisition.
- “Continuing LLC Owners” refers to the direct and certain indirect owners of Holdings, collectively, prior to the Reorganization Transactions who continue to own LLC Interests (as defined below) after the Reorganization Transactions and who may, following the completion of the IPO, exchange their LLC Interests for shares of our Class A Common Stock or a cash payment, in each case, together with a cancellation of the same number of its shares of Class B Common Stock.
- “LLC Interests” refer to a single class of common membership interests of Holdings.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

SOLO BRANDS, INC.
Consolidated Balance Sheets
(Unaudited)

<i>(In thousands)</i>	September 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,178	\$ 25,101
Accounts receivable, net of allowance for doubtful accounts of \$1.5 million and \$0.3 million	21,855	21,513
Inventory	165,757	102,335
Prepaid expenses and other current assets	19,162	9,889
Total current assets	<u>223,952</u>	<u>158,838</u>
Non-current assets		
Property and equipment, net	14,607	10,603
Intangible assets, net	239,697	257,234
Goodwill	382,658	410,559
Other non-current assets	36,547	506
Total non-current assets	<u>673,509</u>	<u>678,902</u>
Total assets	<u>\$ 897,461</u>	<u>\$ 837,740</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 22,179	\$ 11,774
Accrued expenses and other current liabilities	30,939	28,150
Deferred revenue	3,414	3,524
Current portion of long-term debt	5,000	3,125
Total current liabilities	<u>61,532</u>	<u>46,573</u>
Non-current liabilities		
Long-term debt, net	166,918	125,023
Deferred tax liability	86,194	91,244
Other non-current liabilities	31,038	729
Total non-current liabilities	<u>284,150</u>	<u>216,996</u>
Commitments and contingencies (Note 13)		
Shareholders' equity		
Class A common stock, par value \$0.001 per share; 475,000,000 shares authorized; 63,473,831 and 63,397,635 shares issued and outstanding	63	63
Class B common stock, par value \$0.001 per share; 50,000,000 shares authorized; 31,436,216 and 31,178,815 shares issued and outstanding	31	31
Additional paid-in capital	356,104	350,088
Accumulated other comprehensive income	39	6
Retained earnings (accumulated deficit)	(5,587)	10,691
Shareholders' equity	<u>350,650</u>	<u>360,879</u>
Shareholders' equity attributable to non-controlling interests	201,129	213,292
Total shareholders' equity	<u>551,779</u>	<u>574,171</u>
Total liabilities and shareholders' equity	<u>\$ 897,461</u>	<u>\$ 837,740</u>

See Notes to Unaudited Consolidated Financial Statements

SOLO BRANDS, INC.
Consolidated Statements of Operations and Comprehensive (Loss) Income
(Unaudited)

<i>(In thousands, except per unit data)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net sales	\$ 102,162	\$ 69,433	\$ 320,384	\$ 227,249
Cost of goods sold	37,482	28,412	120,175	80,064
Gross profit	64,680	41,021	200,209	147,185
Operating expenses				
Selling, general & administrative expenses	59,489	28,584	174,299	76,980
Impairment charges	—	—	30,589	—
Depreciation and amortization expenses	6,216	5,063	18,194	12,968
Other operating expenses	2,260	3,063	3,580	5,673
Total operating expenses	67,965	36,710	226,662	95,621
(Loss) income from operations	(3,285)	4,311	(26,453)	51,564
Non-operating expenses (income)				
Interest expense, net	1,805	2,233	3,838	7,350
Other non-operating, net	(90)	7	514	9
Total non-operating expenses, net	1,715	2,240	4,352	7,359
(Loss) income before income taxes	(5,000)	2,071	(30,805)	44,205
Income tax (benefit) expense	(980)	(49)	(3,677)	123
Net (loss) income	(4,020)	2,120	(27,128)	44,082
Less: net (loss) income attributable to noncontrolling interests	(1,816)	937	(10,850)	1,166
Net (loss) income attributable to controlling interests⁽¹⁾	\$ (2,204)	\$ 1,183	\$ (16,278)	\$ 42,916
Other comprehensive (loss) income				
Foreign currency translation, net of tax	\$ (21)	\$ —	\$ 49	\$ —
Comprehensive (loss) income	(4,041)	2,120	(27,079)	44,082
Less: other comprehensive (loss) income attributable to noncontrolling interests	(7)	—	16	—
Less: net (loss) income attributable to noncontrolling interests	(1,816)	937	(10,850)	1,166
Comprehensive (loss) income attributable to controlling interests⁽¹⁾	\$ (2,218)	\$ 1,183	\$ (16,245)	\$ 42,916
Net (loss) income per share				
Basic	\$ (0.03)	*	\$ (0.26)	*
Diluted	\$ (0.03)	*	\$ (0.26)	*
Weighted-average shares outstanding				
Basic	63,470	*	63,429	*
Diluted	63,470	*	63,429	*

* Refer to Note 16, Net (Loss) Income Per Share, for why the earnings per share information has not been presented for the periods three and nine months ended September 30, 2021.

⁽¹⁾ Controlling interests refers to Solo Brands, Inc. for the three and nine month periods ended September 30, 2022 and Solo Stove Holdings, LLC for the three and nine month periods ended September 30, 2021.

See Notes to Unaudited Consolidated Financial Statements

SOLO BRANDS, INC.
Consolidated Statements of Cash Flows
(Unaudited)

<i>(In thousands)</i>	Nine Months Ended	
	September 30, 2022	September 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (27,128)	\$ 44,082
<i>Adjustments to reconcile net (loss) income to net cash and cash equivalents (used in) provided by operating activities</i>		
Impairment charges	30,589	—
Amortization of intangible assets	15,748	12,667
Equity-based compensation	13,213	732
Deferred income taxes	(6,592)	(944)
Operating lease right-of-use assets expense	4,891	—
Depreciation	2,446	301
Changes in accounts receivable reserves	1,262	103
Amortization of debt issuance costs	645	—
Loss on disposal of property and equipment	(8)	—
Non-cash interest expense	—	1,944
<i>Changes in assets and liabilities</i>		
Accounts receivable	(2,003)	(8,715)
Inventory	(64,244)	(62,343)
Prepaid expenses and other current assets	(9,342)	(4,621)
Accounts payable	11,198	3,736
Accrued expenses and other current liabilities	(2,151)	(18,833)
Deferred revenue	(96)	(20,141)
Other non-current assets and liabilities	(3,758)	368
Net cash (used in) provided by operating activities	(35,330)	(51,664)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(7,512)	(5,104)
Acquisitions, net of cash acquired	(774)	(133,308)
Net cash (used in) provided by investing activities	(8,286)	(138,412)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	45,000	358,600
Repayments of long-term debt	(1,875)	(54,600)
Debt issuance costs paid	—	(4,234)
Payment of contingent consideration	—	(100,000)
Contributions from members before Reorganization Transactions	—	250
Distributions to members before Reorganization Transactions	—	(33,164)
Distributions to non-controlling interests	(7,275)	—
Stock issued under employee stock purchase plan	246	—
Net cash provided by financing activities	36,096	166,852
Effect of exchange rate changes on cash	(403)	—
Net change in cash and cash equivalents	(7,923)	(23,224)
Cash and cash equivalents balance, beginning of period	25,101	32,753
Cash and cash equivalents balance, end of period	\$ 17,178	\$ 9,529
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	\$ 2,966	\$ 5,292
Cash income taxes paid	13,026	42
Liabilities for capital expenditure additions	64	—
SUPPLEMENTAL NONCASH INVESTING AND FINANCING DISCLOSURES:		
Non-cash issuance of Class B units - non-controlling interest purchase of Oru	\$ —	\$ 16,486
Non-cash issuance of Class B units - ISLE	—	16,494
Non-cash issuance of Class B units - Chubbies	—	29,075

See Notes to Unaudited Consolidated Financial Statements

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SOLO BRANDS, INC.
Consolidated Statements of Shareholders' Equity
(Unaudited)

For the Three and Nine Months Ended September 30, 2022

<i>(In thousands)</i>	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Non- controlling Interest	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2021	<u>63,397</u>	<u>\$ 63</u>	<u>31,179</u>	<u>\$ 31</u>	<u>\$ 350,088</u>	<u>\$ 6</u>	<u>\$ 10,691</u>	<u>\$ 213,292</u>	<u>\$ 574,171</u>
Net loss	—	—	—	—	—	—	(2,035)	(1,200)	(3,235)
Equity-based compensation	—	—	—	—	3,300	—	—	1,137	4,437
Other comprehensive income	—	—	—	—	—	16	—	8	24
Tax distributions to non-controlling interests	—	—	—	—	—	—	—	(4,290)	(4,290)
Vested equity-based compensation and re-allocation of ownership percentage	4	—	90	—	(380)	—	—	380	—
Balance at March 31, 2022	<u>63,401</u>	<u>\$ 63</u>	<u>31,269</u>	<u>\$ 31</u>	<u>\$ 353,008</u>	<u>\$ 22</u>	<u>\$ 8,656</u>	<u>\$ 209,327</u>	<u>\$ 571,107</u>
Net loss	—	—	—	—	—	—	(12,039)	(7,834)	(19,873)
Equity-based compensation, net of tax	—	—	—	—	2,293	—	—	1,134	3,427
Other comprehensive income	—	—	—	—	—	31	—	15	46
Tax distributions to non-controlling interests	—	—	—	—	—	—	—	(251)	(251)
Employee stock purchase plan	60	—	—	—	246	—	—	—	246
Vested equity-based compensation and re-allocation of ownership percentage	—	—	94	—	(1,726)	—	—	1,726	—
Balance at June 30, 2022	<u>63,461</u>	<u>\$ 63</u>	<u>31,363</u>	<u>\$ 31</u>	<u>\$ 353,821</u>	<u>\$ 53</u>	<u>\$ (3,383)</u>	<u>\$ 204,117</u>	<u>\$ 554,702</u>
Net loss	—	—	—	—	—	—	(2,204)	(1,816)	(4,020)
Equity-based compensation, net of tax	—	—	—	—	2,710	—	—	1,114	3,824
Other comprehensive loss	—	—	—	—	—	(14)	—	(7)	(21)
Tax distributions to non-controlling interests	—	—	—	—	—	—	—	(2,706)	(2,706)
Vested equity-based compensation and re-allocation of ownership percentage	12	—	73	—	(427)	—	—	427	—
Balance at September 30, 2022	<u>63,473</u>	<u>\$ 63</u>	<u>31,436</u>	<u>\$ 31</u>	<u>\$ 356,104</u>	<u>\$ 39</u>	<u>\$ (5,587)</u>	<u>\$ 201,129</u>	<u>\$ 551,779</u>

See Notes to Unaudited Consolidated Financial Statements

SOLO BRANDS, INC.
Consolidated Statements of Members' Equity
(Unaudited)

For the Three and Nine Months Ended September 30, 2021

	Class A Units		Class B Units		Incentive Units	Retained Earnings (Accumulated Deficit)	Non-controlling Interest	Total Members' Equity
	Units	Amount	Units	Amount				
<i>(In thousands)</i>								
Balance at December 31, 2020	250,000	\$ 237,309	175,000	\$ 103,109	\$ —	\$ (8,318)	\$ —	\$ 332,100
Net income prior to Reorganization Transactions	—	—	—	—	—	22,234	—	22,234
Equity-based compensation prior to Reorganization Transactions	—	—	—	—	229	—	—	229
Balance at March 31, 2021	250,000	\$ 237,309	175,000	\$ 103,109	\$ 229	\$ 13,916	\$ —	\$ 354,563
Member tax distributions	—	(24,704)	—	(1,348)	—	—	—	(26,052)
Noncontrolling interest in Oru	—	—	—	—	—	—	15,320	15,320
Net income prior to Reorganization Transactions	—	—	—	—	—	19,499	229	19,728
Equity-based compensation prior to Reorganization Transactions	—	—	—	—	261	—	—	261
Balance at June 30, 2021	250,000	212,605	175,000	101,761	490	33,415	15,549	363,820
Member tax distributions	—	(6,800)	—	(312)	—	—	—	(7,112)
Contributions	—	—	60	250	—	—	—	250
Issuance of Class B units for acquisitions	—	—	10,996	45,569	—	—	—	45,569
Purchase of remaining interest in Oru	—	—	9,265	16,486	—	—	(16,486)	—
Net income prior to Reorganization Transactions	—	—	—	—	—	1,183	937	2,120
Equity-based compensation prior to Reorganization Transactions	—	—	—	—	242	—	—	242
Balance at September 30, 2021	250,000	205,805	195,321	163,754	732	34,598	—	404,889

See Notes to Unaudited Consolidated Financial Statements

SOLO BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – Significant Accounting Policies

Included below are selected significant accounting policies including those that were added or modified during the nine months ended September 30, 2022 as a result of the adoption of new accounting policies. Refer to Note 2, Significant Accounting Policies, within the annual consolidated financial statements in the Company's 2021 Form 10-K for the full list of significant accounting policies.

Basis of Presentation

The unaudited consolidated financial statements contained herein have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and the rules of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the unaudited consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to applicable rules and regulations of the SEC. The unaudited consolidated financial statements include the wholly-owned subsidiaries. Intercompany balances and transactions are eliminated in consolidation. These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2021. Certain prior period amounts have been conformed to the current period's presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses during the reporting period and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates and assumptions about future events and their effects cannot be made with certainty. Estimates may change as new events occur when additional information becomes available and if the operating environment changes. Actual results could differ from estimates.

Leases

The Company leases space for warehouses, stores and corporate space under operating leases expiring at various times through 2029. The Company accounts for leases in accordance with Accounting Standards Codification ("ASC") No. 842, Leases. The Company determines if an arrangement is a lease at inception of a contract if the terms state the Company has the right to direct the use of, and obtain substantially all the economic benefits from, a specific asset identified in the contract. The right-of-use ("ROU") assets represent the Company's right to use the underlying assets for the lease term, and the lease liabilities represent the obligation to make lease payments arising from the leases. The Company records its ROU assets in other non-current assets, its current lease liabilities in accrued expenses and other current liabilities and its non-current lease liabilities in other non-current liabilities. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments to be made over the lease term. Certain of the Company's lease agreements contain options to extend the lease. The Company evaluates these options on a lease-by-lease basis, and if the Company determines it is reasonably certain to be exercised, the lease term includes the extension. The Company uses its incremental borrowing rate at lease commencement to determine the present value of lease payments, and lease expense is recognized on a straight-line basis over the lease term. The incremental borrowing rate is the rate of interest the Company could borrow on a collateralized basis over a similar term with similar payments. The Company does not record leases with an initial term of twelve months or less ("short-term leases").

Certain of the Company's lease agreements include payments for certain variable costs not determinable upon lease commencement, including common area maintenance, utilities, property taxes and inflation adjustments, as well as fixed payments for non-lease components, including common area maintenance. These variable and fixed lease payments are recognized in selling, general and administrative expenses, but are not included in the ROU asset or lease liability balances. The Company's lease agreements do not contain any material residual value guarantees, restrictions or covenants.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), and has modified the standard thereafter, which supersedes the lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Prior to this new standard, leases were classified as either capital or operating, with only capital leases recognized on the consolidated balance sheets. The Company did not have any capital leases prior to or upon adoption of ASU 2016-02. The Company adopted this standard on January 1, 2022 using the modified retrospective transition approach. Upon adoption of ASU 2016-02, the Company recorded the following amounts associated with operating leases in its consolidated balance sheet at January 1, 2022: \$24.9 million of ROU assets in other non-current assets, \$4.1 million of lease liabilities in accrued expenses and other current liabilities and \$21.4 million of lease liabilities in other non-current liabilities. There was no impact to the opening balance of retained earnings as a result of implementing ASU 2016-02. The Company elected the package of three practical expedients available under the ASU, which allows entities to carryforward accounting conclusions under previous GAAP by not reassessing the following: (a) whether a contract is or contains a lease, (b) lease classification or (c) determination of initial direct costs. Additionally, the Company implemented appropriate changes to internal processes and controls to support recognition, subsequent measurement and disclosures.

Recently Issued Accounting Pronouncements - Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments. The ASU includes changes to the accounting and measurement of financial assets, including the Company’s accounts receivable and held-to-maturity debt securities, by requiring the Company to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice, where an allowance is not recognized until the losses are considered probable. The ASU also changes the way credit losses are recognized for available-for-sale debt securities. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. In November 2019, the FASB issued ASU 2019-10, deferring the effective date of ASU 2016-13 to annual periods beginning after December 15, 2022. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Although early adoption is permitted, the Company does not plan to early adopt. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,” an update that provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The optional guidance is provided to ease the potential burden of accounting for reference rate reform. The guidance is effective as of March 12, 2020 and is available for contract modifications through December 31, 2022. The Company does not expect the adoption of this standard to have a material impact on its 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. The ASU requires that an acquirer recognize and measure contract assets and liabilities acquired in a business combination in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance is effective for annual periods beginning after December 15, 2023, including interim periods therein, with early adoption permitted. The guidance will be applied prospectively to acquisitions occurring on or after the effective date. The Company will continue to evaluate the impact of this guidance, which will depend on the contract assets and liabilities acquired in future business combinations.

NOTE 2 – Revenue

The Company primarily engages in direct-to-consumer transactions, which is comprised of product sales directly from the Company’s website, and business-to-business transactions, or wholesale, which is comprised of product sales to retailers, including where possession of the Company's products is taken and sold by the retailer in-store or online.

The following table disaggregates net sales by channel:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales by channel				
Direct-to-consumer	\$ 86,306	\$ 58,081	\$ 262,632	\$ 191,492
Wholesale	15,856	11,352	57,752	35,757
Total net sales	\$ 102,162	\$ 69,433	\$ 320,384	\$ 227,249

NOTE 3 – Acquisitions

The following transactions were accounted for under the acquisition method of accounting for business combinations.

Oru Kayak, Inc.

On May 3, 2021, Solo Brands, LLC, a wholly-owned subsidiary of Holdings, acquired 60% of the voting equity interests in Oru Kayak, Inc. (“Oru”) for total cash consideration of \$25.4 million. Additionally, the Company elected to purchase the remaining 40% on September 8, 2021 in exchange for 9.3 million Class B units of Solo Stove Holdings, LLC. The purchase of the remaining 40% was priced using Oru’s last twelve months adjusted EBITDA times a predetermined multiple. The Company acquired Oru to increase its brand and market share in the overall outdoor activities industry, as Oru manufactures, markets, and sells kayak boats and kayak accessories.

The excess enterprise value of Oru over the estimated fair value of assets and liabilities assumed was recorded as goodwill. Goodwill was recorded to reflect the excess purchase consideration over net assets acquired, which represents the value that is expected from expanding the Company’s product offerings and other synergies. Factors that contributed to the recognition of goodwill included the expected future revenue growth of Oru. None of the goodwill recognized was expected to be deductible for tax purposes. A working capital settlement of \$0.2 million was paid during the first quarter of 2022, and purchase accounting has been finalized.

The following table summarizes the fair values of the assets acquired and liabilities assumed by the Company at the acquisition date:

Cash	\$	6,307
Accounts receivable		357
Inventory		4,171
Property and equipment		436
Prepaid expenses and other assets		902
Intangible assets		21,115
Accounts payable and accrued liabilities		(4,119)
Deferred revenue		(746)
Deferred tax liability		(6,247)
Total identifiable net assets		<u>22,176</u>
Noncontrolling interest		(15,320)
Goodwill		18,781
Total		<u>25,637</u>
Less: cash acquired		(6,307)
Total, net of cash acquired	\$	<u>19,330</u>

International Surf Ventures, LLC

On August 2, 2021, Solo Brands, LLC, a wholly-owned subsidiary of Holdings, acquired 100% of the voting equity interests in International Surf Ventures, LLC (“ISLE”) for total consideration of cash paid of \$24.8 million and Class B units of Solo Stove Holdings, LLC of \$16.5 million. The Company acquired ISLE to increase its brand and market share in the overall outdoor activities industry, as ISLE manufactures, markets, and sells stand up paddle boards and paddle board accessories.

The excess enterprise value of ISLE over the estimated fair value of assets and liabilities assumed was recorded as goodwill. Goodwill was recorded to reflect the excess purchase consideration over net assets acquired, which represents the value that is expected from expanding the Company’s product offerings and other synergies. Factors that contributed to the recognition of goodwill included the expected future revenue growth of ISLE. None of the goodwill recognized was expected to be deductible for tax purposes. Purchase accounting has been finalized.

The following table summarizes the fair values of the assets acquired and liabilities assumed by the Company at the acquisition date:

Cash	\$	3,085
Accounts receivable		107
Inventory		8,986
Property and equipment		110
Prepaid expenses and other assets		60
Intangible assets		4,121
Accounts payable and accrued liabilities		(4,697)
Total identifiable net assets		<u>11,772</u>
Goodwill		29,564
Total		<u>41,336</u>
Less: fair value of class B units		(16,494)
Less: cash acquired		(3,085)
Total, net of cash acquired	\$	<u>21,757</u>

Chubbies, Inc.

On September 1, 2021, Solo Brands, LLC, a wholly-owned subsidiary of Holdings, acquired 100% of the voting equity interests in Chubbies, Inc. (“Chubbies”) for total consideration of cash paid of \$100.4 million and Class B units of Solo Stove Holdings, LLC of \$29.1 million. The Company acquired Chubbies to increase its brand and market share in the overall outdoor activities industry, as Chubbies sells casual wear, sportswear, swimwear, outerwear, loungewear, and other accessories.

The excess enterprise value of Chubbies over the estimated fair value of assets and liabilities assumed was recorded as goodwill. Goodwill was recorded to reflect the excess purchase consideration over net assets acquired, which represents the value that is expected from expanding the Company’s product offerings and other synergies. Factors that contributed to the recognition of goodwill included the expected future revenue

growth of Chubbies. None of the goodwill recognized was expected to be deductible for tax purposes. A working capital settlement of \$0.6 million was paid during the first quarter of 2022, and purchase accounting has been finalized.

The following table summarizes the fair values of the assets acquired and liabilities assumed by the Company at the acquisition date:

Cash	\$	7,990
Accounts receivable		1,962
Inventory		25,360
Property and equipment		401
Prepaid expenses and other assets		893
Intangible assets		47,846
Accounts payable and accrued liabilities		(15,011)
Deferred revenue		(392)
Deferred tax liability		(12,095)
Other non-current liabilities		(12)
Total identifiable net assets		<u>56,942</u>
Goodwill		<u>73,118</u>
Total		130,060
Less: fair value of class B units		(29,075)
Less: cash acquired		(7,990)
Total, net of cash acquired	\$	<u><u>92,995</u></u>

NOTE 4 – Inventory

Inventory consisted of the following:

	September 30, 2022	December 31, 2021
Purchased inventory on hand	\$ 114,081	\$ 64,310
Inventory in transit	46,189	28,064
Raw materials	5,487	2,148
Fair value write-up	—	7,813
Inventory	<u>\$ 165,757</u>	<u>\$ 102,335</u>

NOTE 5 – Property and Equipment, net

Property and equipment, net consisted of the following:

	September 30, 2022	December 31, 2021
Leasehold improvements	\$ 6,770	\$ 6,121
Computer, software, and other equipment	6,873	3,032
Machinery	2,634	1,288
Furniture and fixtures	1,372	746
Construction in progress	131	166
Property and equipment, gross	<u>17,780</u>	<u>11,353</u>
Accumulated depreciation	(3,173)	(750)
Property and equipment, net	<u>\$ 14,607</u>	<u>\$ 10,603</u>

Depreciation expense was \$0.9 million and \$2.4 million for the three and nine months ended September 30, 2022, compared to \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2021, respectively. Depreciation expense is recorded to depreciation and amortization expenses on the unaudited consolidated statements of operations and comprehensive (loss) income.

NOTE 6 – Intangible Assets, net

Intangible assets consisted of the following:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Gross carrying value		
Brand	\$ 196,114	\$ 196,114
Trademark	33,567	33,457
Customer relationships	28,605	28,605
Developed technology	17,871	17,871
Patents	2,676	1,888
Intangible assets, gross	<u>278,833</u>	<u>277,935</u>
Accumulated amortization and impairments		
Brand	(25,898)	(16,036)
Trademark ⁽¹⁾	(5,378)	(901)
Customer relationships	(3,885)	(1,915)
Developed technology	(3,617)	(1,702)
Patents	(358)	(147)
Accumulated amortization, gross	<u>(39,136)</u>	<u>(20,701)</u>
Intangible assets, net	<u>\$ 239,697</u>	<u>\$ 257,234</u>

⁽¹⁾ Includes impairment of trademark discussed below.

In the second quarter of 2022, as a result of the Company's identification of triggering events to perform an interim quantitative goodwill impairment test (see Note 7, Goodwill for more information), the Company first considered the extent to which the adverse events and circumstances identified could affect the reporting units' carrying amounts. The Company observed weakened paddleboard sales resulting in a lower near-term forecast of future operating results, which constituted a triggering event for one of the Company's held and used long-lived asset groups primarily consisting of a trademark intangible asset. The Company reviewed the undiscounted future cash flows for the identified long-lived asset group, and the results of the analysis indicated the carrying amount for the long-lived asset group was not expected to be recovered. The Company estimated the fair value of the trademark intangible using the relief-from-royalty method under the income approach, based on the following significant assumptions: management's estimates of future net sales for the long-lived asset group, the royalty rate and the weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the long-lived asset group. The fair value was then compared to the carrying value of the long-lived asset group, and the Company recorded a \$2.7 million impairment charge to the trademark intangible asset at June 30, 2022. This impairment charge was recorded to impairment charges on the unaudited consolidated statements of operations and comprehensive (loss) income. As a result of this impairment charge, the Company also reassessed the useful life of this trademark and revised it from fifteen years to five years. This change does not have a material impact to amortization expense in any future year.

Amortization expense was \$5.3 million and \$15.7 million for the three and nine months ended September 30, 2022, compared to \$4.9 million and \$12.7 million for the three and nine months ended September 30, 2021, respectively. Amortization expense is recorded to depreciation and amortization expenses on the unaudited consolidated statements of operations and comprehensive (loss) income.

Estimated amortization expense for the next five years was as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022 (remaining three months)	\$ 5,219
2023	20,980
2024	20,980
2025	20,980
2026	20,600
Thereafter	150,938
Total future amortization expense	<u>\$ 239,697</u>

NOTE 7 – Goodwill

The carrying value of goodwill was as follows:

Balance, December 31, 2021	\$ 410,559
Accumulated impairment losses	(27,901)
Balance, September 30, 2022	<u>\$ 382,658</u>

In the second quarter of 2022, the Company identified triggering events indicating the fair value of one or more of the Company's reporting units more likely than not did not exceed their carrying values. The triggering events included: (1) adverse equity market conditions resulting in a sustained decline in the Company's stock price subsequent to the Company's issuance of its first quarter 2022 results on Form 10-Q and (2) weakened demand for the ISLE reporting unit's products resulting in a lower near-term forecast of future operating results. As a result, the Company performed an interim quantitative goodwill impairment test for all of its reporting units and recorded a \$27.9 million goodwill impairment charge related to its ISLE reporting unit, which has \$1.7 million of remaining goodwill after the impairment. The results of the interim quantitative test did not result in a goodwill impairment for the Company's other reporting units. The impairment charge was recorded to impairment charges on the unaudited consolidated statements of operations and comprehensive (loss) income. For 2021, the annual goodwill impairment analysis did not result in impairment charges at any of the Company's reporting units.

The Company estimated the fair value of its reporting units using a weighting of fair values derived from the income and market approaches, where comparable market data was available. Under the income approach, the Company determined the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections were based on management's estimates of revenue growth rates and operating margins, considering industry and market conditions, and management's estimates of working capital requirements. The discount rate for each reporting unit was based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of each reporting unit and its estimated cash flows. Under the market approach, the Company utilized a combination of methods, including estimates of fair value based on: (1) market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit and (2) pricing multiples derived from recent merger and acquisition transactions of comparable publicly-traded companies.

During the third quarter of 2022, the Company did not identify any triggering events indicating the fair value of one or more of the Company's reporting units more likely than not did not exceed their carrying values.

NOTE 8 – Accrued Expenses and Other Current Liabilities

Significant accrued expenses and other current liabilities were as follows:

	September 30, 2022	December 31, 2021
Leases	6,918	—
Inventory purchases	6,823	3,852
Non-income taxes	3,686	5,072
Income taxes	3,074	4,631
Payroll	3,049	6,972
Allowance for sales returns	1,808	1,462
Shipping costs	1,684	1,936
Marketing	1,329	324
Other	2,568	3,901
Accrued expenses and other current liabilities	<u>\$ 30,939</u>	<u>\$ 28,150</u>

NOTE 9 – Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2022	December 31, 2021
Term loan	\$ 97,500	\$ 99,375
Revolving credit facility	77,500	32,500
Unamortized debt issuance costs	(3,082)	(3,727)
Total debt, net of debt issuance costs	171,918	128,148
Less: current portion of long-term debt	5,000	3,125
Long-term debt, net	<u>\$ 166,918</u>	<u>\$ 125,023</u>

Interest expense related to long-term debt was \$1.9 million and \$3.9 million for the three and nine months ended September 30, 2022, compared to \$2.2 million and \$7.4 million for the three and nine months ended September 30, 2021, respectively.

Revolving Credit Facility and Term Loan

On May 12, 2021, the Company entered into a credit agreement with a bank (the “Revolving Credit Facility”). Under the terms of this agreement, the Company may borrow up to \$200 million under a revolving credit facility. On June 2, 2021, and on September 1, 2021, the Company entered into amendments to the Revolving Credit Facility, which resulted in an increase in the maximum amount available under the Revolving Credit Facility to \$350.0 million. Under the terms of the Revolving Credit Facility, the Company has access to certain swing line loans and letters of credit. The Revolving Credit Facility matures on May 12, 2026 and bears interest at a rate equal to the base rate as defined in the agreement plus an applicable margin, which as of September 30, 2022, was based on LIBOR. All outstanding principal and interest due on the Revolving Credit Facility are due at maturity.

During the nine months ended September 30, 2022, the Company had total draws of \$45.0 million, with a weighted average interest rate of 2.0%, and no repayments on its Revolving Credit Facility.

In addition to the above, the amendments included a provision for the Company to borrow up to \$100.0 million under a term loan (the “Term Loan”). The proceeds from the Term Loan were used to fund the Chubbies acquisition (see Note 3). The term loan matures on September 1, 2026 and bears interest at a rate equal to a base rate defined in the agreement plus an applicable margin, which as of September 30, 2022 was based on LIBOR. The Company is required to make quarterly principal payments on the Term Loan. During the nine months ended September 30, 2022, the Company repaid \$1.9 million on its Term Loan. All outstanding principal and interest due on the Term Loan are due at maturity. The Company was in compliance with all covenants under all credit arrangements as of September 30, 2022.

The weighted average interest rate on the Term Loan during the nine months ended September 30, 2022 was 2.38%

Deferred debt issuance costs were amortized over the term of the related debt and are presented as a reduction to long-term debt, net on the consolidated balance sheets.

As of September 30, 2022, the future maturities of principal amounts of the Company’s total debt obligations, excluding lease obligations (see Note 10 for future maturities of lease obligations), for the next five years and in total, consists of the following:

Years Ending December 31,	Amount
2022 (remaining three months)	\$ 1,250
2023	5,000
2024	6,250
2025	10,625
2026	151,875
Total	<u>\$ 175,000</u>

NOTE 10 – Leases

The following table presents the components of the total leased assets and lease liabilities and their classification in the Company's unaudited consolidated balance sheets:

	Classification in Consolidated Balance Sheets	September 30, 2022
Operating lease right-of-use assets	Other non-current assets	\$ 36,015
Current operating lease liabilities	Accrued expenses and other current liabilities	6,918
Long-term operating lease liabilities	Other non-current liabilities	30,035
Total operating lease liabilities		<u>\$ 36,953</u>

The components of lease expense were as follows:

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Operating lease right-of-use expense	\$ 1,861	\$ 4,891
Variable and short-term lease expense	481	1,092
Total lease expense	<u>\$ 2,342</u>	<u>\$ 5,983</u>

The weighted average remaining lease term and discount rate are presented in the following table:

	<u>September 30, 2022</u>
Weighted average remaining lease term (years)	5.30
Weighted average discount rate	2.65 %

Cash flow and other information related to leases is included in the following table:

	<u>Three Months Ended September 30, 2022</u>	<u>Nine Months Ended September 30, 2022</u>
Operating cash outflows for amounts included in the measurement of lease liabilities	\$ 1,404	\$ 3,714
Right of use assets obtained in exchange for lease obligations	12,044	15,287

Future maturities of lease liabilities at September 30, 2022 are presented in the following table:

<u>Years Ending December 31,</u>	<u>Operating Leases</u>
2022 (remaining three months)	\$ 1,983
2023	7,993
2024	7,970
2025	8,019
2026	6,603
Thereafter	8,573
Total lease payments	41,141
Less: imputed interest	4,188
Present value of lease liabilities	<u>\$ 36,953</u>

NOTE 11 – Equity-Based Compensation

Fair Value Considerations

Determining the fair value of awards requires judgment. The Monte Carlo simulation model and Black-Scholes model is used to estimate the fair value of awards that have service, performance and/or market vesting conditions. The assumptions used in these models require the input of subjective assumptions as follows:

Fair value—The fair value of the common stock underlying the incentive units was determined by the Company’s board of directors (the “Board”). Because there is no public market for the incentive units, the Company’s Board determined the common stock fair value at the incentive unit grant date by considering several objective and subjective factors, including the price paid for its common and preferred stock, actual and forecasted operating and financial performance, market conditions and performance of comparable publicly traded companies, developments and milestones within the Company, the rights, preferences, and privileges of its common and preferred stock, and the likelihood of achieving a liquidity event. The fair value of the common stock underlying stock options and restricted stock units is determined by the closing stock price on the New York Stock Exchange.

Expected volatility—Expected volatility is based on historical volatilities of a publicly-traded peer group based on weekly price observations over a period equivalent to the expected term of the award.

Expected term—For awards with only service vesting conditions, the expected term is determined using the simplified method, which estimates the expected term using the contractual life of the award and the vesting period. For awards with performance or market conditions, the term is estimated in consideration of the time period expected to achieve the performance or market condition, the contractual term of the award, and estimates of future exercise behavior.

Risk-free interest rate—The risk-free interest rate is based on the U.S. Treasury yield of treasury bonds with a maturity that approximates the expected term of the award.

Expected dividend yield—The dividend yield is based on the Company’s current expectations of dividend payouts. The Company has never declared or paid any cash dividends on its common stock, and the Company does not anticipate paying any cash dividends in the foreseeable future.

DLOM estimate—The discounts for lack of marketability are used to help calculate the value of closely held and restricted shares. A valuation discount exists between a share that is publicly traded, and thus has a market, and the market for privately held stock, which often has little, if any, marketplace.

Forfeiture rate—The Company will recognize forfeitures as they occur instead of estimating forfeitures based on historical activity.

Incentive Units

Prior to the IPO, certain employees of the Company purchased incentive units in Solo Stove Holdings, LLC for \$0.000001 per unit. The majority of the incentive units were issued in December 2020 with additional issuances in March and June 2021. The Company used the Monte Carlo simulation model to determine the fair value of the incentive units. Each incentive award consists of service-based units (representing one-third (1/3) of the number of incentive units) and performance-based units (representing two-thirds (2/3) of the number of incentive units).

The incentive units with a service condition were scheduled to vest over four years with 25% vesting on the one-year anniversary of the grant date and the remaining 75% of such service-based units vesting in substantially equal monthly installments over the following three years, subject to the employee's continued employment through each applicable vesting date. Additionally, the vesting of the service-based units will accelerate upon the occurrence of a sale transaction prior to the employee's termination of employment. The IPO did not meet the definition of a sale transaction per the incentive unit agreement. Therefore, the vesting of the service-based units did not accelerate upon the IPO, nor did the vesting schedule change.

There were 27.6 million incentive units outstanding immediately before the Reorganization Transactions. After the Reorganization Transactions, the 27.6 million incentive units converted into 3.4 million common units in Solo Stove Holdings, LLC. The 3.4 million common units consisted of service-based units representing one-third (1/3) of the common units and performance-based units representing two-thirds (2/3) of the common units.

In connection with the IPO, 0.9 million of the 2.3 million performance-based common units vested with the remaining 1.4 million unvested performance-based common units being canceled. Associated with these units the Company recognized \$3.3 million of stock compensation expense during the fourth quarter of fiscal 2021.

At IPO, the Company replaced the 1.4 million performance-based incentive units that did not vest under the above market conditions with service-based common units in Solo Stove Holdings, LLC that vest over two years, with 50% of units vesting after one year and 50% vesting in four quarterly installments in the following year, subject to the employee's continued employment with the Company through the applicable vesting date. If Summit Partners sells all of its equity interests in the Company or if the investment return to Summit equals or exceeds 4.0x on a per-share basis for four consecutive quarters, and in each case the employee remains employed with the Company on such date, then all unvested service-based common units that were previously performance-based units will vest. For accounting purposes, these awards were considered new awards with an estimated fair value of \$25.8 million. Pursuant to the Stockholders Agreement, dated October 27, 2021 by and among the Company and the stockholders party thereto, holders of common units cannot exercise vested service-based common units until such time as Summit Partners and its affiliates cease to own any of the shares of Solo Stove Holdings, LLC common stock owned by them at IPO, Summit Partners does a follow-on registered offering in which case holders can perform an equivalent transaction, or the Stockholders Agreement is otherwise terminated in accordance with its terms.

During the three and nine months ended September 30, 2022, the Company recognized \$3.4 million and \$10.2 million of equity-based compensation expense related to service-based units, respectively. During the three and nine months ended September 30, 2021, the Company recognized \$0.2 million and \$0.7 million of equity-based compensation expense related to service-based units, respectively.

The grant date fair value of each incentive unit incorporates a range of assumptions for inputs as follows:

	2020
Expected term (years)	4.0
Expected stock price volatility	36.0 %
Risk-free interest rate	0.3 %
Expected dividend yield	—
DLOM estimate	16.0 %
Weighted average fair value at grant date	\$ 0.25

A summary of the common units is as follows for the periods indicated (in thousands, except per share data):

	Outstanding Common Units	Weighted Average Grant Date Fair Value Per Unit	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Unvested, December 31, 2021	2,238	\$ 13.91	2.11	\$ 31,124
Granted	—	—	—	—
Forfeited/canceled	(66)	15.02	—	(987)
Vested	(257)	4.35	—	(1,120)
Unvested, September 30, 2022	1,915	15.15	1.24	29,017
Exercisable, September 30, 2022 ⁽¹⁾	—	\$ —	—	\$ —

⁽¹⁾ Note there were performance and service-based units that vested by September 30, 2022. However, none of them are exercisable due to the Stockholders Agreement, as described above.

Incentive Award Plan

In October 2021, the Board adopted, and the stockholders of the Company approved, the 2021 Incentive Award Plan (“Incentive Award Plan”), which became effective on October 28, 2021. Upon the Incentive Award Plan becoming effective, there were 10,789,561 shares of Class A common stock authorized under the Incentive Award Plan. The shares of Class A common stock authorized under the Incentive Award Plan will increase annually, beginning on January 1, 2023 and continuing through 2031, by the lesser of (i) 5% of the aggregate number of shares of Class A common stock outstanding on the last day of the immediately preceding calendar year, and (ii) a smaller number of shares as determined by the Board.

Stock Options

Upon IPO, the Company granted stock options under the Incentive Award Plan. Stock options provide for the purchase of shares of the Company’s Class A common stock in the future at an exercise price set on the grant date. Unless otherwise determined by the plan administrator and except for certain substitute options granted in connection with a corporate transaction, the stock option’s exercise price will not be less than 100% of the fair market value of the underlying share on the date of grant. The options vest over four years, with 25% vesting on the first anniversary of the grant date and the remainder vesting in substantially equal quarterly installments over the following three years, subject to the employee’s continued employment with the Company through the applicable vesting date.

During the three and nine months ended September 30, 2022, the Company recorded equity-based compensation expense related to the options of \$0.1 million and \$0.4 million, respectively.

The following summary sets forth the stock option activity under the Incentive Award Plan (in thousands, except per share data):

	Options Outstanding			
	Number of Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ⁽¹⁾
Outstanding, December 31, 2021	340	\$ 17.00	9.8	\$ —
Granted	327	5.71	—	—
Exercised	—	—	—	—
Forfeited/canceled	(93)	17.00	—	—
Outstanding, September 30, 2022	574	10.57	6.0	—
Exercisable, September 30, 2022	—	\$ —	—	\$ —

⁽¹⁾ The aggregate intrinsic value is zero because the closing Class A common stock price at the end of each period is less than the weighted-average exercise price of the options.

Unvested option activity is as follows (in thousands, except per share data):

	Options	Weighted-Average Grant Date Fair Value
Unvested, December 31, 2021	340	\$ 8.71
Granted	327	2.84
Vested	—	—
Forfeited or expired	(93)	8.71
Unvested, September 30, 2022	574	\$ 5.36

The fair value of each option was estimated at the grant date using the Black-Scholes method with the following assumptions:

	<u>Nine Months Ended September 30,</u> <u>2022</u>	<u>Fiscal Year Ended December 31,</u> <u>2021</u>
Risk-free interest rate	2.7% - 3.1%	1.6 %
Expiration (in years)	10	10
Expected volatility	40.5% - 40.7%	37.0 %
Dividend yield	—	—

Restricted Stock Units

Upon and after the IPO, the Company granted restricted stock units (“RSUs”) under the Incentive Award Plan. The RSUs are unfunded, unsecured rights to receive, on the applicable settlement date, shares of Class A common stock or an amount in cash or other consideration determined by the plan administrator to be of equal value as of such settlement date. The RSUs will vest over four years, with 25% vesting on the first anniversary of the grant date and the remainder vesting in substantially equal quarterly installments over the following three years, subject to the employee’s continued employment with the Company through the applicable vesting date.

During the three and nine months ended September 30, 2022, the Company recorded equity-based compensation expense related to the RSUs of \$1.0 million and \$2.5 million, respectively.

The following table summarizes the activity related to the Company’s restricted stock units:

	<u>Restricted Stock Units Outstanding</u>	
	<u>Number of Awards</u>	<u>Weighted-Average Grant Date Fair Value</u>
Outstanding, December 31, 2021	661	\$ 19.05
Granted	730	5.32
Vested and converted to shares	(12)	19.26
Forfeited/canceled	(149)	17.71
Outstanding, September 30, 2022	<u>1,230</u>	<u>\$ 11.06</u>

Employee Stock Purchase Plan

In October 2021, the Board adopted, and the stockholders of the Company approved, the 2021 Employee Stock Purchase Plan (the “ESPP”). The maximum number of shares of Class A common stock which will be authorized for sale under the ESPP is equal to the sum of (a) 1,618,434 shares of common stock and (b) an annual increase on the first day of each calendar year beginning on January 1, 2023 and ending on and including January 1, 2031, by a number of shares of Class A common stock equal to the lesser of (i) 0.5% of the shares of common stock outstanding on the last day of the immediately preceding calendar year and (ii) a smaller number of shares of Class A common stock as determined by the Board; provided, however, that no more than 6,473,736 shares of Class A common stock may be issued or transferred pursuant to right granted under Section 423 Component (as defined the ESPP) of the ESPP (which numbers may be adjusted pursuant to the ESPP). As of September 30, 2022, awards with respect to 60,436 shares of Class A common stock have been issued under the ESPP.

NOTE 12 – Income Taxes

The Company is the sole managing member of Solo Stove Holdings, LLC (“Holdings”), and as a result, consolidates its financial results. Holdings is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. Any taxable income or loss generated by Holdings is passed through to and included in the taxable income or loss of its members, including the Company, on a pro rata basis. The Company is subject to U.S. federal income taxes, in addition to state and local income taxes with respect to its allocable share of any taxable income or loss of Holdings, as well as any stand-alone income or loss generated by Solo Brands, Inc.

Provision for Income Taxes

The effective income tax rate was 19.6% and 11.9% for the three and nine months ended September 30, 2022, compared to (2.4)% and 0.3% for the corresponding periods in 2021, respectively. The increase for the three and nine months ended September 30, 2022 was primarily due to the Reorganization Transactions that occurred in 2021. This increase was partially offset for the nine months ended September 30, 2022 by a discrete tax benefit related to the Company’s impairment charges recorded in the second quarter of 2022. Refer to Note 6, Intangible Assets, net, and Note 7, Goodwill for more information regarding the impairment charges recorded in the second quarter of 2022. Prior to the Reorganization Transactions in 2021, the Company was only subject to certain LLC state entity-level taxes; whereas, in 2022 and 2021, the Company was also subject to U.S. federal, state and local income taxes on the Company’s allocable share of any taxable income or loss generated by Holdings subsequent to the Reorganization Transactions.

Income tax benefit for the three and nine months ended September 30, 2022, was \$1.0 million and \$3.7 million, respectively, compared to nominal income tax expense in corresponding periods. Income taxes represents federal, state, and local income taxes on our allocable share of taxable income of Holdings, as well as Oru's and Chubbies' federal and state tax expense and foreign tax expense related to international subsidiaries.

The weighted-average ownership interest in Holdings was 67.0% for the three and nine months ended September 30, 2022.

Deferred Tax Assets and Liabilities

As of September 30, 2022, the total deferred tax liability related to the basis difference in the Company's investment in Holdings was \$45.1 million. However, a portion of the total basis difference will only reverse upon the eventual sale of its interest in Holdings, which the Company expects would result in a capital loss. As of September 30, 2022, the total valuation allowance established against the deferred tax asset to which this portion relates was \$27.1 million. An additional valuation allowance of \$0.9 million was recognized primarily related to the impact of the goodwill impairment charge recorded during the second quarter of 2022.

During the nine months ended September 30, 2022, the Company did not recognize any deferred tax assets related to additional tax basis increases generated from expected future payments under the Tax Receivable Agreement and related deductions for imputed interest on such payments. Refer to "Tax Receivable Agreement" herein for additional information.

The Company evaluates the realizability of its deferred tax assets on a quarterly basis and establishes valuation allowances when it is more likely than not that all or a portion of a deferred tax asset may not be realized. As of September 30, 2022, the Company concluded, based on the weight of all available positive and negative evidence, that all of its deferred tax assets (except for those deferred tax assets described above relating to basis differences that are expected to result in a capital loss upon eventual sale of its interest in Holdings) are more likely than not to be realized. As such, no additional valuation allowance was recognized.

Tax Receivable Agreement

Pursuant to the Company's election under Section 754 of the Internal Revenue Code (the "Code"), the Company expects to obtain an increase in its share of the tax basis related to the net assets of Holdings when LLC Interests are redeemed or exchanged by the non-controlling interest holders and other qualifying transactions. The Company plans to make an election under Section 754 of Code for each taxable year in which a redemption or exchange of LLC Interest occurs, treating any redemptions and exchanges of LLC Interests by the non-controlling interest holders as direct purchases of LLC Interests for U.S. federal income tax purposes. These increases in tax basis may reduce the amounts that would otherwise be paid in the future to various tax authorities. They may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

On October 27, 2021, the Company entered into a tax receivable agreement with the then-existing non-controlling interest holders (the "Tax Receivable Agreement") that provides payments to be made to non-controlling interest holders of 85% of the amount of any tax benefits that the Company actually realizes, or in some cases is deemed to realize, as a result of (i) increases in the Company's share of the tax basis in the net assets of Holdings resulting from any redemptions or exchanges of LLC Interests, (ii) tax basis increases attributable to payments made under the Tax Receivable Agreement, and (iii) deductions attributable to imputed interest pursuant to the Tax Receivable Agreement (the "TRA Payments"). The Company expects to benefit from the remaining 15% of any tax benefits that it may actually realize. The TRA Payments are not conditioned upon any continued ownership interest in Holdings or on the Company. The rights of each non-controlling interest holder under the Tax Receivable Agreement are assignable to transferees of its LLC Interests.

During the three and nine months ended September 30, 2022, there were no redemptions of LLC Interests that would have resulted in an increase in the tax basis of the Company's investment in Holdings subject to the provisions of the Tax Receivable Agreement. During the three and nine months ended September 30, 2022, inclusive of interest, no payments were made to the members of Holdings pursuant to the Tax Receivable Agreement. As of September 30, 2022, there were no TRA Payments due under the Tax Receivable Agreement.

NOTE 13 – Commitments and Contingencies

Contingencies

From time to time, the Company is involved in various legal proceedings that arise in the normal course of business. While the Company intends to prosecute and defend any lawsuit vigorously, the Company presently believes that the ultimate outcome of any currently pending legal proceeding will not have any material adverse effect on its financial position, cash flows, or results of operations. However, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include monetary damages, which could impact the Company's business and the results of operations for the period in which the ruling occurs or future periods. Based on the information available, the Company evaluates the likelihood of potential outcomes. The Company records the appropriate liability when the amount is deemed probable and reasonably estimable. In addition, the Company does not accrue for estimated legal fees and other directly related costs as they are expensed as incurred. The Company is not currently a party to any pending litigation that it considers material. Therefore, the consolidated balance sheets do not include a liability for any potential obligations as of September 30, 2022 and December 31, 2021.

Purchase Commitments

The Company has previously entered into non-cancelable purchase contracts for operating expenditures, primarily short-term inventory purchases, amounting to \$14.8 million as of December 31, 2021. As of September 30, 2022, there were no non-cancelable purchase commitments that were in excess of one year and thus, requiring disclosure.

NOTE 14 – Fair Value Measurements

The Company has established a fair value hierarchy which prioritizes the inputs to the valuation techniques used to measure fair value into three levels. These levels are determined based on the lowest level input that is significant to the fair value measurement. Levels within the hierarchy are defined within Note 2, Significant Accounting Policies, in the 2021 Form 10-K.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis:

September 30, 2022	Total Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Financial liabilities:				
Long-term debt, net	\$ 171,918	\$ —	\$ 171,918	\$ —

December 31, 2021	Total Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Financial liabilities:				
Long-term debt, net	\$ 128,148	\$ —	\$ 128,148	\$ —

During the second quarter of 2022, the Company recorded impairment charges of \$27.9 million and \$2.7 million for goodwill and trademark intangible assets, respectively. Indicators of value from income and market approaches, where comparable market data is available, were the basis for the determination of the fair values, which include Level 3 inputs. See Note 6, Intangible Assets, net, and Note 7, Goodwill, for additional discussions of the Company's impairment analyses. There were no other material nonrecurring fair value measurements during the periods ended September 30, 2022 and December 31, 2021.

NOTE 15 – Shareholders' and Members' Equity

Class A Common Stock

The Company has 475,000,000 shares of Class A common stock, par value \$0.001 per share, authorized. Holders of Class A common stock are entitled to one vote per share on all matters presented to the stockholders in general. In the event of liquidation, dissolution or winding up, each holder of Class A common stock will be entitled to a pro rata distribution of any assets available for distribution to common stockholders.

Class B Common Stock

The Company has 50,000,000 shares of Class B common stock, par value \$0.001 per share, authorized. Shares of Class B common stock will only be issued in the future to the extent necessary to maintain a one-to-one ratio between the number of LLC Interests held by the Continuing LLC Owners and the number of shares of Class B common stock issued to the Continuing LLC Owners. Shares of Class B common stock are transferable only together with an equal number of LLC Interests. Shares of Class B common stock will be cancelled on a one-for-one basis if the Company, at the election of the Continuing LLC Owners, redeem or exchange their LLC Interests pursuant to the terms of the Holdings LLC Agreement. Holders of Class B common stock are entitled to one vote per share on all matters presented to the stockholders in general. In the event of liquidation, dissolution or winding up, holders of Class B common stock shall be entitled to receive \$0.001 per share and will not be entitled to receive any distribution of the Company's assets.

Class A Units

Pursuant to the 2020 Agreement, as defined in the 2021 Form 10-K, Solo Stove Holdings, LLC authorized 250,000,000 Class A units for issuance at a price of \$1 per unit. For so long as any of the Class A units remain outstanding, the Class A units will rank senior to the Class B units discussed below. Holders of Class A units are entitled to one vote per share on all matters to be voted upon by the members. When and if distributions are declared by the Company's Board, holders of Class A units are entitled to ratably receive distributions until the aggregate unreturned capital with respect to each holder's Class A units has been reduced to zero. Upon dissolution, liquidation, distribution of assets, or other winding up, the holders of Class A units are entitled to receive ratably the assets available for distribution after payment of liabilities and before the holders of Class B units and incentive units (see Note 11).

Class B Units

Pursuant to the 2020 Agreement, Solo Stove Holdings, LLC has authorized 175,000,000 Class B units for issuance at a price of \$1 per unit. Holders of Class B units are entitled to one vote per share on all matters to be voted upon by the members. Holders of Class A units and Class B units generally vote together as a single class on all matters presented to the Company's members for their vote or approval. When and if distributions are declared by the Company's Board, holders of Class B units are entitled to ratably receive distributions until the aggregate unreturned capital with

respect to each holder's Class B units has been reduced to zero. Upon dissolution, liquidation, distribution of assets, or other winding up, the holders of Class B units are entitled to receive ratably the assets available for distribution after payment of liabilities and Class A unitholders and before the holders of incentive units.

Pursuant to the 2020 Agreement, the Company's Board may authorize Solo Stove Holdings, LLC to create and/or issue additional equity securities, provided that the number of additional authorized incentive units do not exceed 10% of the outstanding Class A and Class B units without the prior written consent of the majority investors. Upon issuance of additional equity securities, all unitholders shall be diluted with respect to such issuance, subject to differences in rights and preferences of different classes, groups, and series of equity securities, and the Company's Board shall have the power to amend the schedule of unitholders to reflect such additional issuances and dilution.

As part of the 2020 Agreement, certain members of management, in lieu of a cash transaction bonus, elected to receive Class B units which had a fair value of \$4.7 million.

NOTE 16 – Net (Loss) Income Per Share

The Company analyzed the calculation of earnings per unit for the periods prior to the Reorganization Transactions and determined that it resulted in values that would not be meaningful to the users of these unaudited consolidated financial statements. Therefore, earnings per unit information has not been presented for the three and nine months ended September 30, 2021.

Basic net (loss) income per share of Class A common stock is computed by dividing net (loss) income attributable to Solo Brands, Inc. by the weighted average number of shares of Class A common stock outstanding during the period. Diluted net (loss) income per share of Class A common stock is computed by dividing net (loss) income attributable to Solo Brands, Inc. by the weighted average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities.

The following table sets forth the calculation of the basic and diluted net (loss) income per share for the Company's Class A common stock:

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Net (loss) income	\$ (4,020)	\$ (27,128)
Less: Net (loss) income attributable to non-controlling interests	(1,816)	(10,850)
Net (loss) income attributable to Solo Brands, Inc.	\$ (2,204)	\$ (16,278)
Numerator:		
Net (loss) income attributable to Class A common shareholders - basic and diluted	\$ (2,204)	\$ (16,278)
Denominator:		
Weighted average shares of Class A common stock outstanding - basic and diluted	63,470	63,429
Loss per share of Class A common stock outstanding - basic and diluted	\$ (0.03)	\$ (0.26)

During the three and nine months ended September 30, 2022, 33.4 million shares of Class B common stock, 0.6 million options and 1.2 million restricted stock units were not included in the computation of diluted net income per share because their effect would have been anti-dilutive.

NOTE 17 – Subsequent Events

On October 1, 2022, the Company granted 174,528 stock options with an exercise price of \$3.80 per share and a grant date fair value of \$2.05 per share, or \$0.4 million aggregate grant date fair value, and 703,706 RSUs at a grant date fair value of \$3.80 per share, or \$2.7 million aggregate grant date fair value. These awards vest over four years, with 25% vesting on the first anniversary of the grant date and the remainder vesting in substantially equal quarterly installments over the following three years, subject to the employee's continued employment with the Company through the applicable vesting date.

On October 1, 2022, the Company granted 1,295,549 performance stock units ("PSUs"). These PSUs will only vest based upon achieving an internally-derived performance target. PSUs that remain unvested two years following the grant date will be automatically forfeited.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report, as well as our audited consolidated financial statements included in our 2021 Form 10-K. Some of the numbers included herein have been rounded for the convenience of the presentation. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under Item 1, Part 1A, “Risk Factors” of our 2021 Form-K and elsewhere in this Quarterly Report. See “Special Note Regarding Forward-Looking Statements.”

Overview

We own and operate premium authentic lifestyle brands with ingenious products we market and deliver through our direct-to-consumer (“DTC”) platform. We aim to help our customers enjoy good moments that create lasting memories. We consistently deliver innovative, high-quality products that are loved by our customers and revolutionize the outdoor experience, build community and help everyday people reconnect with what matters most.

Our net sales increased to \$102.2 million and \$320.4 million in the three and nine months ended September 30, 2022 from \$69.4 million and \$227.2 million in the corresponding periods of 2021, representing increases of 47.1% and 41.0%, respectively, including the effect of acquisitions. Our net income decreased to a net loss of \$4.0 million and \$27.1 million in the three and nine months ended September 30, 2022 from net income of \$2.1 million and \$44.1 million in the corresponding periods of 2021, respectively. The net loss for the three months ended September 30, 2022 was primarily due to higher selling, general and administrative costs compared to the corresponding period as a result of investments in long-term strategic initiatives, costs associated with being a public company and headcount. Additionally, marketing and distribution expenses increased along with the increases in net sales. The net loss for the nine months ended September 30, 2022 was primarily due to \$30.6 million of impairment charges recorded during the second quarter of 2022.

In addition to financial outputs, we take deliberate care to monitor and respond to our customer health as measured by our customer referral rate of 39.9%, our repeat purchase rate of 45.2%, and our net promoter score of 80 in the nine months ended September 30, 2022. Together, these health checks ensure we continue to keep the customer at the center of what we do and drive solid customer lifetime value that we believe will result in long-term financial value to the Company.

Outlook

Although we are excited about the pipeline of innovation we plan to launch in the fourth quarter of 2022 and full year 2023, we recognize that consumers are facing a number of pressures, which could impact discretionary spending. We believe the macroeconomic backdrop is uncertain with the current inflationary environment and rising interest rates. Our fourth quarter sales have historically contributed a significant portion of our annual sales. Consumer unpredictability may put pressure on our near-term growth. However, our low market penetration levels, ongoing investments in data, product innovation and international expansion position us for long-term sustainable growth.

Key Factors Affecting Our Results of Operations

We believe that our performance and future success depend on a number of factors that present significant opportunities for us, but also pose risks and challenges, including those discussed below and in Part I, Item 1A. “Risk Factors” included in our 2021 Form 10-K.

Macroeconomic Conditions

Demand for our products is impacted by a number of macroeconomic factors impacting our customers, such as consumer confidence, demographic trends, employment levels, inflation, discretionary income, interest rates, and other macroeconomic factors. These factors may influence the extent to which consumers invest in outdoor lifestyle products such as fire pits, stoves, paddleboards, kayaks, grills, consumables, and associated accessories.

Supply Chain

In 2022, some of our factories in China have closed periodically due to COVID-19 outbreaks. This has had and may continue to have adverse impacts on our business, primarily with the delivery of Solo Stove Pi. Our other products have been minimally impacted due to our strong inventory position. We secured our contracted freight rates for the current year, and we expect freight rates to remain higher in 2022 than the prior year, which will continue to put pressure on gross margin in 2022. However, we have seen spot rates decrease from the highs in 2021, and we will opportunistically use the spot rates if they are lower than our contracted rates. If supply chain challenges persist or worsen, our business may continue to be adversely impacted.

Inflation

Although we have been able to navigate inflationary pressures without material impact to our financial position or results of operations through September 30, 2022, we expect the volatility we experienced in the first nine months of 2022 to continue to impact the Company in the fourth quarter. We believe consumers will continue to feel the pressures of higher inflation, thereby impacting their spending.

Success of Our Innovation Pipeline

Our future growth depends in part on our ability to introduce new and enhanced products. The success of our new and enhanced products depends on many factors, including anticipating consumer trends, finding innovative solutions to consumer needs, differentiating our products from those of our competitors, obtaining protection for our intellectual property and the ability to expand our brand beyond the categories of products we currently sell.

Seasonality/Weather

Sales have historically experienced seasonality, with our highest level of sales typically being generated in the second and fourth fiscal quarters and the first fiscal quarter typically generating the lowest sales. This historical sales trend is supported by the demand for our products at the beginning of the summer and holiday shopping seasons. During the first nine months of 2022, second quarter net sales were greater than first and third quarter net sales. Unfavorable weather can impact demand, including wet or exceptionally hot or dry weather conditions. Environmental disasters and anomalies also have potential to adversely impact our business.

COVID-19 Impacts

As we continue to monitor and navigate the prolonged COVID-19 pandemic and its effects, we may take additional actions based on the requirements and recommendations of local health guidelines, and intend to focus on investments for future, long-term growth. In certain circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, given the dynamic nature of this situation, we cannot reasonably estimate the impacts of the COVID-19 pandemic on our financial condition, results of operations or cash flows in the future. In addition, see Part I, Item 1A. "Risk Factors" included in our 2021 Form 10-K.

Ability to Scale Our Operating Model

We depend on third-party manufacturers for the sourcing of our products and generally do not maintain long-term supply agreements with our manufacturers. Our future performance may be impacted by the inability or unwillingness of our third-party manufacturers to meet our product demand and the availability of land-based and air freight carriers. Our ability to support our growth will also be dependent on attracting, motivating, and retaining personnel.

Business Acquisitions

Our ability to find suitable acquisition targets and integrate them on to the Solo Brands platform could impact our future business performance.

Components of Our Results of Operations

Net Sales

Net sales are comprised of DTC and wholesale channel sales to retail partners. Net sales in both channels reflect the impact of partial shipments, product returns, and discounts for certain sales programs or promotions.

Our net sales have historically included a seasonal component. In the DTC channel, our historical net sales tend to be highest in our second and fourth quarters, while our wholesale channel has generated higher sales in the first and third quarters. Additionally, we expect variance in the results of operations throughout the year relative to the timing of new product launches.

Cost of Goods Sold and Gross Profit

Gross profit reflects net sales less cost of goods sold, which primarily includes the purchase cost of our products from our third-party manufacturers, inbound freight and duties, product quality testing and inspection costs, and depreciation on molds and equipment that we own.

Selling, General & Administrative Expenses

Selling, general and administrative ("SG&A") expenses consist primarily of marketing costs, equity-based compensation expense and benefits costs, costs of our warehousing and logistics operations, costs of operating on third-party DTC marketplaces, professional fees and services, cost of product shipment to our customers, and general corporate expenses.

Depreciation and Amortization Expenses

Depreciation and amortization expenses consist of depreciation of property, plant and equipment and amortization of definite-lived intangible assets.

Impairment Charges

Impairment charges consist of impairments recorded to definite-lived intangible assets and goodwill.

Other Operating Expenses

Other operating expenses consist primarily of acquisition-related expenses related to the Oru, ISLE, and Chubbies acquisitions in 2021. Additionally, other operating expenses include certain costs incurred for the initial public offering in 2021, business optimization and expansion expenses and management transition expenses.

Results of Operations

Three and Nine Months Ended September 30, 2022 Compared to Three and Nine Months Ended September 30, 2021

Net Sales

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Net sales	\$ 102,162	\$ 69,433	\$ 32,729	47.1 %
Direct-to-consumer net sales	86,306	58,081	28,225	48.6 %
Wholesale net sales	\$ 15,856	\$ 11,352	\$ 4,504	39.7 %

<i>(dollars in thousands)</i>	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Net sales	\$ 320,384	\$ 227,249	\$ 93,135	41.0 %
Direct-to-consumer net sales	262,632	191,492	71,140	37.2 %
Wholesale net sales	\$ 57,752	\$ 35,757	\$ 21,995	61.5 %

Increases in net sales for the three and nine months ended September 30, 2022 compared to the corresponding periods were primarily driven by 107.3% and 82.3% increases in total orders, respectively, as a result of \$18.6 million and \$89.4 million of activity related to acquisitions and 52.7% and 9.8% organic growth in total orders, respectively. Partially offsetting the increases in total orders for the three and nine months ended September 30, 2022, average order value decreased 36.2% and 15.9% compared to the corresponding periods, respectively, due to the lower price point of the products offered by the Chubbies business and new product launches. Additionally, demand improved in both the DTC and wholesale sales channels as a result of continued market penetration.

Cost of Goods Sold and Gross Profit

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	
	2022	2021	\$	%
Cost of goods sold	\$ 37,482	\$ 28,412	\$ 9,070	31.9 %
Gross profit	64,680	41,021	23,659	57.8 %
Gross margin (Gross profit as a % of net sales)	63.3 %	59.1 %		4.2 %

<i>(dollars in thousands)</i>	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
Cost of goods sold	\$ 120,175	\$ 80,064	\$ 40,111	50.1 %
Gross profit	200,209	147,185	53,024	36.0 %
Gross margin (Gross profit as a % of net sales)	62.5 %	64.8 %		(2.3)%

Increases in cost of goods sold for the three and nine months ended September 30, 2022 compared to the corresponding periods included \$3.4 million and \$37.4 million of activity related to the businesses acquired in 2021, respectively, for which the comparative periods did not include such activity for the full periods. Additionally, for the three and nine months ended September 30, 2022, freight costs increased \$5.8 million and \$2.6 million, respectively.

Increases in gross profit for the three and nine months ended September 30, 2022 compared to the corresponding periods were primarily due to acquisition activity. Gross margin increased for the three months ended September 30, 2022 compared to the corresponding period due to inventory turns driving recognition of fair value inventory write-ups from acquisition activity during the three months ended September 30, 2021, with no comparable impacts during the three months ended September 30, 2022. The increase in freight costs discussed above partially offset this increase in gross margin. Gross margin decreased for the nine months ended September 30, 2022 compared to the corresponding period primarily due to the gross margin profile of the acquisitions made in the third quarter of 2021 and higher inbound freight costs.

Selling, General & Administrative Expenses

	Three Months Ended September 30,		Change	
	2022	2021	\$	%
<i>(dollars in thousands)</i>				
Selling, general, and administrative expenses	\$ 59,489	\$ 28,584	\$ 30,905	108.1 %
SG&A as a % of net sales	58.2 %	41.2 %		17.0 %

	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
<i>(dollars in thousands)</i>				
Selling, general, and administrative expenses	\$ 174,299	\$ 76,980	\$ 97,319	126.4 %
SG&A as a % of net sales	54.4 %	33.9 %		20.5 %

Increases in SG&A expenses for the three and nine months ended September 30, 2022 compared to the corresponding periods included \$9.2 million and \$41.8 million related to the businesses acquired in 2021, respectively, which did not include activity for the full comparative periods. The remaining increases in SG&A for the three and nine months ended September 30, 2022 compared to the corresponding periods were driven by \$13.5 million and \$34.5 million of fixed cost increases and \$8.1 million and \$20.8 million of variable cost increases, respectively.

The fixed cost increases for the three and nine months ended September 30, 2022 compared to the corresponding periods were primarily due to \$9.1 million and \$23.3 million in employee costs as a result of equity-based compensation, increased headcount and severance, \$1.0 million and \$3.5 million in professional services costs and \$1.2 million and \$2.8 million in insurance as a result of being a public company, and \$1.3 million and \$3.3 million in rent, respectively. Additionally, the fixed cost increase for the nine months ended September 30, 2022 compared to the corresponding period included a \$1.5 million increase in information technology costs. The variable cost increases for the three and nine months ended September 30, 2022 compared to the corresponding periods were primarily due to \$4.3 million and \$12.8 million in marketing spend and \$2.7 million and \$5.3 million in distribution costs, respectively.

Depreciation and Amortization Expenses

	Three Months Ended September 30,		Change	
	2022	2021	\$	%
<i>(dollars in thousands)</i>				
Depreciation and amortization expenses	\$ 6,216	\$ 5,063	\$ 1,153	22.8 %

	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
<i>(dollars in thousands)</i>				
Depreciation and amortization expenses	\$ 18,194	\$ 12,968	\$ 5,226	40.3 %

Increases in depreciation and amortization expenses for the three and nine months ended September 30, 2022 compared to the corresponding periods were driven by a \$0.4 million increase and \$3.1 million increase in amortization, respectively, primarily related to increases in definite-lived intangible assets as a result of acquisition activity, and increases of \$0.8 million and \$2.1 million in depreciation, respectively primarily related to a new global headquarters facility.

Impairment Charges

During the nine months ended September 30, 2022, the Company recorded impairment charges of \$30.6 million, of which \$27.9 million related to goodwill and \$2.7 million related to trademark intangibles. No impairment charges were recorded during the three months ended September 30, 2022 or during the three and nine months ended September 30, 2021. For more information, see Note 7, Goodwill, and Note 6, Intangible Assets, net.

Other Operating Expenses

	Three Months Ended September 30,		Change	
	2022	2021	\$	%
<i>(dollars in thousands)</i>				
Other operating expenses	\$ 2,260	\$ 3,063	\$ (803)	(26.2)%

	Nine Months Ended September 30,		Change	
	2022	2021	\$	%
<i>(dollars in thousands)</i>				
Other operating expenses	\$ 3,580	\$ 5,673	\$ (2,093)	(36.9)%

Other operating expenses for the nine months ended September 30, 2022 decreased compared to the corresponding period primarily due to reduced acquisition-related expenses as a result of lower acquisition activity during 2022, partially offset by management transition costs during 2022.

Interest Expense

Interest expense for the nine months ended September 30, 2022 decreased \$3.5 million compared to corresponding period. The decrease in interest expense was due to lower interest rates on a lower average debt balance.

Income Taxes

We are the sole managing member of Holdings, and as a result, consolidate the financial results of Holdings. Holdings is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, Holdings is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by Holdings is passed through to and included in the taxable income or loss of its members, including us, on a pro rata basis. We are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to our allocable share of any taxable income or loss of Holdings, as well as any stand-alone income or loss generated by Solo Brands, Inc.

Income tax benefit for the three and nine months ended September 30, 2022 was \$1.0 million and \$3.7 million, respectively, compared to nominal income tax expense in corresponding periods. Income taxes represents federal, state, and local income taxes on our allocable share of taxable income of Holdings, as well as Oru's and Chubbies' federal and state tax expense and foreign tax expense related to international subsidiaries.

Liquidity and Capital Resources

Historically, our cash requirements have principally been for working capital purposes. We expect these needs to continue as we develop and grow our business. We fund our working capital, primarily inventory, and accounts receivable, from cash flows from operating activities, cash on hand, and borrowings under our Revolving Credit Facility.

Current Liquidity

As of September 30, 2022, we had a cash balance of \$17.2 million, working capital (excluding cash) of \$145.2 million, and \$272.5 million of borrowings available under the Revolving Credit Facility.

Revolving Credit Facility and Term Loan

On May 12, 2021, we entered into a credit agreement with JPMorgan Chase Bank, N.A., the Lenders and L/C Issuers party thereto (each as defined therein) and the other parties thereto (as subsequently amended on June 2, 2021, and September 1, 2021, the "Revolving Credit Facility"). As so amended, the Revolving Credit Facility allows us to borrow up to \$350.0 million of revolving loans, including the ability to issue up to \$20.0 million in letters of credit. While our issuance of letters of credit does not increase our borrowings outstanding under the Revolving Credit Facility, it does reduce the amounts available under the Revolving Credit Facility. The Revolving Credit Facility matures on May 12, 2026 and bears interest at a rate equal to the base rate as defined in the agreement plus an applicable margin, which as of September 30, 2022, was based on LIBOR. Interest is due on the last business day of each March, June, September and December. On September 30, 2022, we had \$77.5 million in outstanding borrowings and \$272.5 million available for future borrowings on the Revolving Credit Facility. All outstanding principal and interest due under the Revolving Credit Facility are due at maturity.

In addition to the above, the amendment on September 1, 2021 included a provision to borrow up to \$100.0 million under a term loan (the "Term Loan"). The proceeds from the Term Loan were used to fund the Chubbies acquisition. The Term Loan matures on September 1, 2026. We were required to make quarterly principal payments on the Term Loan beginning on December 31, 2021. On September 30, 2022, we had \$97.5 million outstanding on the Term Loan. All outstanding principal and interest due on the Term Loan are due at maturity.

The recent changes in our working capital requirements generally reflect the growth in our business. Although we cannot predict with certainty all of our particular short-term cash uses or the timing or amount of cash requirements, we believe that our available cash on hand, along with amounts available under our Revolving Credit Facility will be sufficient to satisfy our liquidity requirements for at least the next twelve months. However, the continued growth of our business, including our expansion into international markets, may significantly increase our expenses (including our capital expenditures) and cash requirements. Furthermore, we will continue to seek possible brand and mission consistent acquisition opportunities that would require additional capital. In addition, the amount of our future product sales is difficult to predict, and actual sales may not be in line with our forecasts. As a result, we may be required to seek additional funds in the future from issuances of equity or debt, obtaining additional credit facilities, or loans from other sources.

Other Terms of the Revolving Credit Facility

We may request incremental term loans, incremental equivalent debt, or revolving commitment increases (we refer to each as an Incremental Increase) in amounts such that, after giving pro forma effect to such Incremental Increase, our total secured net leverage ratio (as defined in the Revolving Credit Facility) would not exceed the then-applicable cap under the Revolving Credit Facility. In the event that any lenders fund any of the Incremental Increases, the terms and provisions of each Incremental Increase, including the interest rate, shall be determined by us and the lenders, but in no event shall the terms and provisions, when taken as a whole and subject to certain exceptions, of the applicable Incremental Increase, be more favorable to any lender providing any portion of such Incremental Increase than the terms and provisions of the loans provided under the

Revolving Credit Facility unless such terms and conditions reflect market terms and conditions at the time of incurrence or issuance thereof as determined by us in good faith.

The Revolving Credit Facility is (a) jointly and severally guaranteed by the Guarantors and any future subsidiaries that execute a joinder to the guaranty and related collateral agreements and (b) secured by a first priority lien on substantially all of our and the Guarantors' assets, subject to certain customary exceptions.

The Revolving Credit Facility requires us to comply with certain financial ratios, including:

- at the end of each fiscal quarter, a total net leverage ratio (as defined in the Revolving Credit Facility) for the four quarters then ended of not more than: 4.00 to 1.00, for each quarter ending in 2021, 2022, and on June 30, 2023; 3.75 to 1.00, for each quarter ending June 30, 2023 through March 31, 2024; and 3.50 to 1.00, for each quarter ending June 30, 2024 or thereafter;
- at the end of each fiscal quarter commencing with the quarter ending September 30, 2021, an interest coverage ratio (as defined in the Revolving Credit Facility) for the four quarters then ended of not less than 3.00 to 1.00.

In addition, the Revolving Credit Facility contains customary financial and non-financial covenants limiting, among other things, mergers and acquisitions; investments, loans, and advances; affiliate transactions; changes to capital structure and the business; additional indebtedness; additional liens; the payment of dividends; and the sale of assets, in each case, subject to certain customary exceptions. The Revolving Credit Facility contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, defaults under other material debt, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Revolving Credit Facility to be in full force and effect, and a change of control of our business.

Cash Flows

	Nine Months Ended September 30,	
	2022	2021
<i>(dollars in thousands)</i>		
Cash flows provided by (used in):		
Operating activities	\$ (35,330)	\$ (51,664)
Investing activities	(8,286)	(138,412)
Financing activities	\$ 36,096	\$ 166,852

Operating activities

The \$16.3 million decrease in cash used in operating activities period over period, as shown in the table above, was primarily related to the factors discussed below. Net income decreased \$71.2 million to a net loss of \$27.1 million during the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The decrease in net income resulted in greater cash usage during the nine months ended September 30, 2022 of \$23.8 million after non-cash adjustments, which included \$30.6 million of impairment charges recorded in the second quarter of 2022 and a \$12.5 million increase in equity-based compensation, compared to the corresponding period. This cash usage was partially offset by a decline in cash usage of \$40.2 million from changes in operating assets and liabilities ("working capital"). The decline in cash used by working capital was primarily due to a \$20.0 million decrease in cash used by deferred revenue, primarily driven by shipments of previously backordered products, and a \$16.7 million decrease in cash used by accrued expenses and other current liabilities, primarily driven by the prior year acquisitions. Additionally, increases in accounts payable drove a \$7.5 million increase in cash generation, while increases in inventory drove an additional \$1.9 million of cash usage, both of which were primarily due to increased purchases of inventory in preparation for new product launches and international expansion. Changes in accounts receivable generated \$6.7 million more in cash as a result of improved collection efforts, while changes in prepaid expenses and other current assets resulted in greater cash usage of \$4.7 million primarily related to increases in prepaid income taxes and changes in other non-current assets and liabilities resulted in greater cash usage of \$4.1 million primarily due to operating lease payments.

Investing activities

The \$130.1 million decrease in cash used in investing activities, as shown in the table above, was due to an \$132.5 million decrease in acquisition activity. This decrease was partially offset by an increase in capital expenditures of \$2.4 million primarily due to increased equipment purchases for factory and warehouse build outs.

Financing activities

The \$130.8 million decrease in cash provided by financing activities, as shown in the table above, was primarily due to a \$256.6 million decrease in cash provided by net debt activities, partially offset by a \$100.0 million increase in cash as a result of a decrease in payments for contingent consideration and a \$25.9 million increase in cash as a result of decreases in distributions to non-controlling interests.

Contractual Obligations

For information regarding our contractual obligations, see Note 9, Long-Term Debt, Note 10, Leases, and Note 13, Commitments and Contingencies, in this Quarterly Report and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Form 10-K.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. In preparing the consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, sales, expenses, and related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an on-going basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because of the uncertainty inherent in these matters, actual results may differ from these estimates and could differ based upon other assumptions or conditions.

See Note 2, Significant Accounting Policies, to the audited consolidated financial statements included in our 2021 Form 10-K for more information about our significant accounting policies, including our critical accounting policies. The critical accounting estimates that reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements are described in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our 2021 Form 10-K. During the nine months ended September 30, 2022, there were no material changes to our critical accounting policies and estimates from those discussed in our 2021 Form 10-K, except as discussed below. Within the context of these critical accounting estimates, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Goodwill

As of September 30, 2022 and December 31, 2021, we had \$382.7 million and \$410.6 million of goodwill. In preparation of our unaudited consolidated financial statements for the second quarter of 2022, we identified triggering events, performed an interim assessment for impairment and recorded \$27.9 million of impairment for one of our reporting units (see Note 7, Goodwill). As determined by the results of our interim testing, the fair value of the remaining reporting units exceeded their carrying values by greater than 10%.

The estimated fair values of the reporting units were determined using the income and market approaches, where comparable market data was available. Under the income approach, the assumptions that had the most significant impact determining the reporting units' fair values were management's estimates of operating margin expansion, estimates of working capital requirements, and the weighted average cost of capital (discount rate). Under the market approach, the assumptions that had the most significant impact determining the reporting units' fair values were the selection of comparable publicly-traded companies for each reporting unit and related valuation multiples. A change in any of these assumptions, individually or in the aggregate, or future financial performance below management expectations may result in the carrying value of one or more reporting units exceeding their fair value, and goodwill could be impaired. The future occurrence of a potential indicator of impairment could include matters such as: a decrease in expected net earnings, a further decline in equity market conditions, a decline in comparable market multiples, a continued and sustained decline in the Company's common stock price, a significant adverse change in legal factors or the general business climate, an adverse action or assessment by a regulator, and a significant downturn in demand for products offered by the Company. In the event of significant adverse changes of the nature described above, it may be necessary for the Company to recognize a non-cash impairment of goodwill, which could have a material adverse effect on the Company's consolidated business, results of operations and financial condition.

During the third quarter of 2022, we did not identify any triggering events indicating the fair value of one or more of the reporting units more likely than not did not exceed their carrying values.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see "Recently Adopted Accounting Pronouncements" and "Recently Issued Accounting Pronouncements—Not Yet Adopted" in Note 1 to the unaudited consolidated financial statements included elsewhere in this Quarterly Report.

JOBS Act

We currently qualify as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Accordingly, we are provided the option to adopt new or revised accounting guidance either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We have elected to adopt new or revised accounting guidance within the same time period as private companies, unless management determines it is preferable to take advantage of early adoption provisions offered within the applicable guidance. Our utilization of these transition periods may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the transition periods afforded under the JOBS Act.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates.

Interest Rate Risk

In order to maintain liquidity and fund business operations, we have a long-term credit facility and separate term loan that bear variable interest rates based on prime, federal funds, or LIBOR plus an applicable margin based on our total net leverage ratio. As of September 30, 2022, we had indebtedness of \$77.5 million and \$97.5 million under our Revolving Credit Facility and Term Loan, respectively. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions, and other factors. We may elect to enter into

interest rate swap contracts to reduce the impact associated with interest rate fluctuations, but as of September 30, 2022, we have not entered into any such contracts. A 100 bps increase in LIBOR would increase our interest expense by approximately \$1.8 million in any given year.

Inflation Risk

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we have been able to navigate inflationary pressures without material impact to our financial position through September 30, 2022, a continued high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and SG&A expenses as a percentage of net sales, if the selling prices of our products do not increase with these increased costs.

Commodity Price Risk

The primary raw materials and components used by our contract manufacturing partners include stainless steel and aluminum. We believe these materials are readily available from multiple vendors. We have, and may continue to, negotiate prices with suppliers of these products on behalf of our third-party contract manufacturers in order to leverage the cumulative impact of our volume; however, prices have fluctuated and may continue to do so. Certain of these products use petroleum or natural gas as inputs. However, we do not believe there is a significant direct correlation between petroleum or natural gas prices and the costs of our products.

Foreign Currency Risk

Our international sales are primarily denominated in U.S. dollars. During the nine months ended September 30, 2022, net sales in international markets accounted for 8.6% of our consolidated revenues. During the nine months ended September 30, 2021, net sales in international markets accounted for 6.7% of our consolidated net sales. Therefore, we do not believe exposure to foreign currency fluctuations had a material impact on our net sales. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. In addition, our suppliers may incur many costs, including labor costs, in other currencies. To the extent that exchange rates move unfavorably for our suppliers, they may seek to pass these additional costs on to us, which could have a material impact on our gross margin. In addition, a strengthening of the U.S. dollar may increase the cost of our products to our customers outside of the United States. Our operating results and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. However, we believe that the exposure to foreign currency fluctuations from operating expenses is not material at this time.

Item 4. Controls and Procedures

Limitations on effectiveness of controls and procedures

In designing and evaluating our disclosure controls and procedures, 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 disclosure controls and procedures 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.

Evaluation of disclosure controls and procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2022, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Information on the Company's legal proceedings is set forth under Part I, "Item 3. Legal Proceedings" in our 2021 Form 10-K. There have been no material changes to the legal proceedings as described in the 2021 Form 10-K.

Item 1A. Risk Factors

You should carefully consider the risk factors set forth under Part I, Item 1A. Risk Factors in our 2021 Form 10-K, which could materially affect our business, financial condition, and future results. The risks described in the 2021 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and operating results.

There have been no material changes to the risk factors identified in Part I, Item 1A. Risk Factors in our 2021 Form 10-K.

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

Unregistered Sale of Equity Securities

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

Purchase of Equity Securities

We did not repurchase shares of our Class A common stock during the three months ended September 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed / Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Solo Brands, Inc.	S-8	333-260826	4.1	11/5/2021	
3.2	Amended and Restated Bylaws of Solo Brands, Inc.	S-8	333-260826	4.2	11/5/2021	
10.1	Form of Performance Stock Unit Award					*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.					**
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)					*
*	Filed herewith.					
**	Furnished herewith.					

SIGNATURES

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

Solo Brands, Inc.

Date: November 10, 2022

By: /s/ John Merris

John Merris
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2022

By: /s/ Somer Webb

Somer Webb
Chief Financial Officer
(Principal Financial Officer)

**SOLO BRANDS, INC.
2021 INCENTIVE AWARD PLAN**

PERFORMANCE STOCK UNIT GRANT NOTICE

Capitalized terms not specifically defined in this Performance Stock Unit Grant Notice (the “*Grant Notice*”) have the meanings given to them in the 2021 Incentive Award Plan (as amended from time to time, the “*Plan*”) of Solo Brands, Inc. (the “*Company*”).

The Company has granted to the participant listed below (“*Participant*”) the Awards that vest subject to Performance Criteria described in this Grant Notice (the “*Performance Stock Units*” or “*PSUs*”), subject to the terms and conditions of the Plan and the Performance Stock Unit Agreement attached as **Exhibit A** (the “*Agreement*”), both of which are incorporated into this Grant Notice by reference.

Participant:

Grant Date:

Number of PSUs:

Vesting Schedule:

Subject to the Participant’s continuous service through the applicable vesting date, the PSUs shall become 100% vested if the Company achieves _____ at the conclusion of a fiscal quarter that begins at any time during the two-year period immediately following the Grant Date (such two-year period, the “*Vesting Term*”). If the _____ Target is achieved with respect to any such fiscal quarter that begins during the Vesting Term, the PSUs shall be deemed vested as of the date that the Company’s quarterly _____ is publicly-reported for such fiscal quarter.

For purposes of this Agreement, _____ means the Company’s publicly-reported quarterly _____ as of the conclusion of the applicable fiscal quarter.

The PSUs will be automatically forfeited by the Participant without payment of any consideration therefor if the _____ Target is not achieved in a fiscal quarter that begins at any time during the Vesting Term.

If the Participant’s continuous service terminates, all PSUs that have not become vested on or prior to the date of such termination will thereupon be automatically forfeited by the Participant without payment of any consideration therefor.

By Participant's signature below, Participant agrees to be bound by the terms of this Grant Notice, the Plan and the Agreement. Participant has reviewed the Plan, this Grant Notice and the Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, this Grant Notice and the Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Agreement.

SOLO BRANDS, INC.

PARTICIPANT

By: _____
Name: John Merris
Title: CEO

[Participant Name]

PERFORMANCE STOCK UNIT AGREEMENT

Capitalized terms not specifically defined in this Agreement have the meanings specified in the Grant Notice or, if not defined in the Grant Notice, in the Plan.

ARTICLE I. GENERAL

1.1 Award of PSUs. The Company has granted the PSUs to Participant effective as of the grant date set forth in the Grant Notice (the “*Grant Date*”). Each PSU represents the right to receive one Share or, at the option of the Company, an amount of cash, in either case, as set forth in this Agreement. Participant will have no right to the distribution of any Shares or payment of any cash until the time (if ever) the PSUs have vested.

1.2 Incorporation of Terms of Plan. The PSUs are subject to the terms and conditions set forth in this Agreement and the Plan, which is incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan will control.

1.3 Unsecured Promise. The PSUs will at all times prior to settlement represent an unsecured Company obligation payable only from the Company’s general assets.

ARTICLE II. VESTING; FORFEITURE AND SETTLEMENT

2.1 Vesting; Forfeiture. The PSUs will vest according to the vesting schedule in the Grant Notice except that any fraction of a PSU that would otherwise be vested will be accumulated and will vest only when a whole PSU has accumulated. In the event of Participant’s Termination of Service for any reason, all unvested PSUs will immediately and automatically be cancelled and forfeited, except as otherwise determined by the Administrator or provided in a binding written agreement between Participant and the Company, including the Grant Notice.

2.2 Settlement

(a) PSUs will be settled in Shares or cash at the Company’s option as soon as administratively practicable after the vesting of the applicable PSU, but in no event more than thirty (30) days after the PSU’s vesting date. Notwithstanding the foregoing, the Company may delay any payment under this Agreement that the Company reasonably determines would violate Applicable Law until the earliest date the Company reasonably determines the making of the payment will not cause such a violation (in accordance with Treasury Regulation Section 1.409A-2(b)(7)(ii)), provided the Company reasonably believes the delay will not result in the imposition of excise taxes under Section 409A.

(b) At the time of settlement, Participant will receive one Share for each vested PSU. No fractional Shares will be issued upon settlement. The Company, in its sole discretion, may instead substitute an amount in cash for the vested PSU. If a PSU is settled in cash, the amount of cash paid with respect to the PSU will equal the Fair Market Value of a Share on the day immediately preceding the settlement date.

**ARTICLE III.
TAXATION AND TAX WITHHOLDING**

3.1 Representation. Participant represents to the Company that Participant has reviewed with Participant's own tax advisors the tax consequences of this Award and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents.

3.2 Tax Withholding.

(a) Participant will not receive any shares issued upon settlement of the vested PSUs unless Participant makes arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the settlement of the vested PSUs. The Company has the right and option, but not the obligation, to treat Participant's failure to provide timely payment in accordance with the Plan of any withholding tax arising in connection with the PSUs as Participant's election to satisfy all or any portion of the withholding tax by requesting the Company reduce the amount of such withholding taxes from other compensation payable to the Participant or retain Shares otherwise issuable under the Award. The Company shall not be obligated to deliver any certificate representing Shares issuable with respect to the PSUs to, or to cause any such Shares to be held in book-entry form by, Participant or his or her legal representative unless and until Participant or his or her legal representative shall have paid or otherwise satisfied in full the amount of all federal, state, local and foreign taxes applicable with respect to the taxable income of Participant resulting from the vesting and settlement of the PSUs or any other taxable event related thereto.

(b) Participant acknowledges that Participant is ultimately liable and responsible for all taxes owed in connection with the PSUs, regardless of any action the Company or any Subsidiary takes with respect to any tax withholding obligations that arise in connection with the PSUs. Neither the Company nor any Subsidiary makes any representation or undertaking regarding the treatment of any tax withholding in connection with the awarding, vesting or payment of the PSUs or the subsequent sale of Shares. The Company and the Subsidiaries do not commit and are under no obligation to structure the PSUs to reduce or eliminate Participant's tax liability.

3.3 Broker-Assisted Sales. In the event any tax withholding obligation arising in connection with the PSUs will be satisfied under Section 9.5(c) of the Plan, then the Company may elect to instruct any broker acceptable to the Company for such purpose to sell on Participant's behalf a whole number of Shares from those Shares then issuable upon the settlement of the PSUs as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the tax withholding obligation and to remit the proceeds of such sale to the Company or Subsidiary thereof with respect to which the withholding obligation arises. Participant's acceptance of these PSUs constitutes Participant's instruction and authorization to the Company and such broker to complete the transactions described in this Section 3.3, including the transactions described in the previous sentence, as applicable. In the event of any broker-assisted sale of Shares in connection with the payment of tax withholdings: (a) any Shares to be sold through a broker-assisted sale will be sold on the day the tax withholding obligation occurs or arises, or as soon thereafter as reasonably practicable; (b) such Shares may be sold as part of a block trade with other participants in the Plan in which all participants receive an average price; (c) Participant will be responsible for all broker's fees and other costs of sale, and Participant agrees to indemnify and hold the Company harmless from any losses, costs, damages, or expenses relating to any such sale; (d) to the extent the proceeds of such sale exceed the applicable tax withholding obligation, the Company agrees to pay such excess in cash to Participant as soon as reasonably practicable; (e) Participant acknowledges that the Company or its designee is under no obligation to arrange for such sale at any particular price, and that the proceeds of any such sale may not be sufficient to satisfy the applicable tax withholding obligation; and (f) in the event the proceeds of such sale are insufficient to satisfy the applicable tax

withholding obligation, Participant agrees to pay immediately upon demand to the Company or its applicable Subsidiary with respect to which the withholding obligation arises an amount in cash sufficient to satisfy any remaining portion of the applicable withholding obligation.

ARTICLE IV. OTHER PROVISIONS

4.1 Administration. The Administrator shall have the power to interpret the Plan, the Grant Notice and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan, the Grant Notice and this Agreement as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator will be final and binding upon Participant, the Company and all other interested persons. To the extent allowable pursuant to Applicable Law, no member of the Committee or the Board will be personally liable for any action, determination or interpretation made with respect to the Plan, the Grant Notice or this Agreement.

4.2 PSUs Not Transferrable. Unless otherwise determined by the Administrator, (a) the PSUs may not be sold, assigned or transferred, pledged or otherwise encumbered, either voluntarily or by operation of law, except by will or the laws of descent and distribution or, subject to the Administrator's consent, pursuant to a domestic relations order and (b) neither the PSUs nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy). Any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by this Section 4.2.

4.3 Adjustments. Upon the occurrence of certain events as provided in Article VIII of the Plan, Participant acknowledges that the PSUs and the Shares subject to the PSUs are subject to adjustment, modification and termination.

4.4 Notices. Any notice to be given under the terms of this Agreement to the Company must be in writing and addressed to the Company in care of the Company's Secretary at the Company's principal office or the Secretary's then-current email address or facsimile number. Any notice to be given under the terms of this Agreement to Participant must be in writing and addressed to Participant at Participant's last known mailing address, email address or facsimile number in the Company's personnel files. By a notice given pursuant to this Section, either party may designate a different address for notices to be given to that party. Any notice will be deemed duly given when actually received, when sent by email, when sent by certified mail (return receipt requested) and deposited with postage prepaid in a post office or branch post office regularly maintained by the United States Postal Service, when delivered by a nationally recognized express shipping company or upon receipt of a facsimile transmission confirmation.

4.5 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.6 Governing Law. The PSUs, Grant Notice and this Agreement will be governed by and interpreted in accordance with the laws of the State of Delaware, disregarding any state's choice-of-law principles requiring the application of a jurisdiction's laws other than the State of Delaware.

4.7 Conformity to Securities Laws. Participant acknowledges that the Plan, the Grant Notice and this Agreement are intended to conform to the extent necessary with all Applicable Laws and, to the extent Applicable Laws permit, will be deemed amended as necessary to conform to Applicable Laws.

4.8 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement will inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth in the Plan and this Agreement, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

4.9 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Grant Notice, this Agreement, the PSUs will be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3) that are requirements for the application of such exemptive rule. To the extent Applicable Laws permit, this Agreement will be deemed amended as necessary to conform to such applicable exemptive rule.

4.10 Section 409A. The PSUs are not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A. However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that the PSUs (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate for the PSUs either to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

4.11 Claw-back Provisions. The PSUs (including any proceeds, gains or other economic benefit the Participant actually or constructively receives upon receipt of the PSUs or the settlement or resale of any Shares underlying this PSUs) will be subject to any Company claw-back policy as in effect from time to time, including any claw-back policy adopted to comply with Applicable Laws (including the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder).

4.12 Entire Agreement. The Plan, the Grant Notice and this Agreement (including any exhibit hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

4.13 Agreement Severable. In the event that any provision of the Grant Notice or this Agreement is held illegal or invalid, the provision will be severable from, and the illegality or invalidity of the provision will not be construed to have any effect on, the remaining provisions of the Grant Notice or this Agreement.

4.14 Limitation on Participant’s Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and may not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. Participant will have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the PSUs, and rights no greater than the right to receive cash or the Shares as a general unsecured creditor with respect to the PSUs, as and when settled pursuant to the terms of this Agreement.

4.15 No Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares issuable upon settlement of the PSUs unless and until certificates representing such Shares (which may be in book-entry form) will have been issued and recorded on the records of the Company or its transfer agents or registrars and delivered to Participant (including through electronic delivery to a

brokerage account). No adjustment will be made for a dividend or other right for which the record date is prior to the date of such issuance, recordation and delivery, except as provided in Article VIII of the Plan.

4.16 Not a Contract of Employment. Nothing in the Plan, the Grant Notice or this Agreement confers upon Participant any right to continue in the employ or service of the Company or any Subsidiary or interferes with or restricts in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without Cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

4.17 Counterparts. The Grant Notice may be executed in one or more counterparts, including by way of any electronic signature, subject to Applicable Law, each of which will be deemed an original and all of which together will constitute one instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile, “.pdf” format, scanned pages or other electronic means shall be effective as delivery of a manually executed counterpart to this Agreement.

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