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 July 1, 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 001-40683

SNAP ONE HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1800 Continental Boulevard, Suite 200
Charlotte, North Carolina

(Address of principal executive offices)

82-1952221

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

28273

(Zip Code)

(704) 927-7620

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
Common stock, par value $.01 per share	**SNPO**	The Nasdaq Global Select Market

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 and posted 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 and post 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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

The registrant had outstanding 75,854,515 shares of common stock as of August 9, 2022.

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Unless otherwise indicated, references to the "Company," "Snap One," "we," "us," and "our" in this report refer to Snap One Holdings Corp. and its consolidated subsidiaries. References to the "Former Parent Entity" means Crackle Holdings, L.P., the entity that, until the completion of our initial public offering, held all of our outstanding equity.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Statements made in this report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements, and should be evaluated as such. The following list is not intended to be an exhaustive list of all our forward-looking statements. Forward-looking statements include information concerning possible or assumed future results of operations, including statements relating to individual components thereof, and descriptions of our business plan, strategies, environment and the impact of COVID-19. These statements often include words such as "anticipate," "expect," "suggest," "plan," "believe," "intend," "project," "forecast," "estimates," "targets," "projections," "should," "could," "would," "may," "might," "will," and other similar expressions. These forward-looking statements are contained throughout this report.

We base these forward-looking statements on our current expectations, plans and assumptions, which we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances and at this time. As you read and consider this report, you should understand that these statements are not guarantees of performance or results. The forward-looking statements contained herein are subject to and involve risks, uncertainties and assumptions, and therefore you should not place undue reliance on these forward-looking statements or projections. Although we believe that these forward-looking statements and projections are based on reasonable assumptions at the time they are made, you should be aware that many factors could affect our actual financial results, and therefore actual results might differ materially from those expressed in the forward-looking statements and projections. Factors that might materially affect such forward-looking statements include:

- Risks Related to Our Business, Industry and Market Conditions;
- Risks Related to Our Products;
- Risks Related to Our Manufacturing and Supply Chain;
- Risks Related to Our Distribution Channels;
- Risks Related to Laws and Regulations;
- Risks Related to Cybersecurity and Privacy;
- Risks Related to Intellectual Property;
- Risks Related to Our International Operations;
- Risks Related to Our Indebtedness;
- Risks Related to Our Financial Statements;
- Risks Related to Our Common Stock; and
- the other factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the annual period ended December 31, 2021 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 23, 2022, as amended by the Form 10-K/A filed with the SEC on April 25, 2022 (as amended, our "Annual Report").

The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations about future events. There are important factors that could cause our actual results, level of activity, performance, or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should be aware that the occurrence of the events described under the caption "Risk Factors" in our Annual Report and elsewhere in this report could have a material adverse effect on our business, results of operations and future financial performance.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or occur. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

Part I - Financial Information
Item 1. Financial Statements

Snap One Holdings Corp. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except par value)
(Unaudited)

	As of	
	July 1, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 31,318	$ 40,577
Accounts receivable, net	59,172	52,620
Inventories, net	274,697	210,964
Prepaid expenses and other current assets	31,613	35,114
Total current assets	396,800	339,275
Long-term assets:		
Property and equipment, net	24,238	22,603
Goodwill	590,199	580,761
Other intangible assets, net	576,159	587,192
Operating lease right-of-use assets	39,547	—
Other assets	3,530	10,550
Total assets	$ 1,630,473	$ 1,540,381
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of long-term debt	$ 4,650	$ 3,488
Accounts payable	84,966	72,781
Accrued liabilities	71,499	75,517
Current operating lease liability	11,772	—
Current tax receivable agreement liability	11,038	—
Total current liabilities	183,925	151,786
Long-term liabilities:		
Revolving credit facility, net	45,647	—
Long-term debt, net of current portion	447,700	449,256
Deferred income tax liabilities, net	45,592	48,555
Operating lease liability, net of current portion	30,739	—
Tax receivable agreement liability, net of current portion	101,368	112,406
Other liabilities	21,610	30,103
Total liabilities	876,581	792,106
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.01 par value, 500,000 shares authorized; 74,613 shares issued and outstanding as of July 1, 2022 and 74,427 shares issued and outstanding at December 31, 2021	746	744
Preferred stock, $0.01 par value; 50,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	838,035	826,718
Accumulated deficit	(82,983)	(79,420)
Accumulated other comprehensive loss	(2,130)	(28)
Company's stockholders' equity	753,668	748,014
Noncontrolling interest	224	261
Total stockholders' equity	753,892	748,275
Total liabilities and stockholders' equity	$ 1,630,473	$ 1,540,381

See accompanying Notes to the Condensed Consolidated Financial Statements.

Snap One Holdings Corp. and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Net sales	$ 296,905	$ 253,305	$ 574,339	$ 473,773
Costs and expenses:				
Cost of sales, exclusive of depreciation and amortization	180,395	152,140	352,727	281,016
Selling, general and administrative expenses	95,394	78,657	181,921	154,014
Depreciation and amortization	14,966	14,198	29,855	27,910
Total costs and expenses	290,755	244,995	564,503	462,940
Income from operations	6,150	8,310	9,836	10,833
Other expenses (income):				
Interest expense	7,720	9,543	14,443	19,078
Other expense (income), net	(63)	(296)	(483)	(509)
Total other expenses	7,657	9,247	13,960	18,569
Loss before income taxes	(1,507)	(937)	(4,124)	(7,736)
Income tax (benefit) expense	(163)	119	(524)	(644)
Net loss	(1,344)	(1,056)	(3,600)	(7,092)
Net loss attributable to noncontrolling interest	(17)	(12)	(37)	(34)
Net loss attributable to Company	$ (1,327)	$ (1,044)	$ (3,563)	$ (7,058)
Net loss per share, basic and diluted	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.12)
Weighted average shares outstanding, basic and diluted	74,588	59,217	74,526	59,217

See accompanying Notes to the Condensed Consolidated Financial Statements.

Snap One Holdings Corp. and Subsidiaries
Condensed Consolidated Statements of Comprehensive (Loss) Income
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Net loss	$ (1,344)	$ (1,056)	$ (3,600)	$ (7,092)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(2,108)	32	(2,102)	(20)
Comprehensive loss	(3,452)	(1,024)	(5,702)	(7,112)
Comprehensive loss attributable to noncontrolling interest	(17)	(12)	(37)	(34)
Comprehensive loss attributable to Company	$ (3,435)	$ (1,012)	$ (5,665)	$ (7,078)

See accompanying Notes to the Condensed Consolidated Financial Statements.

Snap One Holdings Corp. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(Unaudited)

	Common Stock												
	Shares		Amount		Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive Income (Loss)		Noncontrolling Interest		Total Stockholders' Equity
Balance - December 31, 2021	74,427	$	744	$	826,718	$	(79,420)	$	(28)	$	261	$	748,275
Net loss	—		—		—		(2,236)		—		(20)		(2,256)
Foreign currency translation adjustments	—		—		—		—		6		—		6
Equity-based compensation	—		—		5,599		—		—		—		5,599
Issuance of common stock pursuant to equity incentive plans	53		1		(1)		—		—		—		—
Balance - April 1, 2022	74,480	$	745	$	832,316	$	(81,656)	$	(22)	$	241	$	751,624
Net loss	—		—		—		(1,327)		—		(17)		(1,344)
Foreign currency translation adjustments	—		—		—		—		(2,108)		—		(2,108)
Equity-based compensation	—		—		6,768		—		—		—		6,768
Repurchase and retirement of common stock	(94)		(1)		(1,047)		—		—		—		(1,048)
Issuance of common stock pursuant to equity incentive plans	227		2		(2)		—		—		—		—
Balance - July 1, 2022	74,613	$	746	$	838,035	$	(82,983)	$	(2,130)	$	224	$	753,892

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance - December 25, 2020	59,217	$ 592	$ 659,093	$ (43,018)	$ 756	$ 316	$ 617,739
Net loss	—	—	—	(6,014)	—	(22)	(6,036)
Foreign currency translation adjustments	—	—	—	—	(52)	—	(52)
Equity-based compensation	—	—	1,060	—	—	—	1,060
Balance - March 26, 2021	$ 59,217	$ 592	$ 660,153	$ (49,032)	$ 704	$ 294	$ 612,711
Equity contributions	—	—	10,025	—	—	—	10,025
Net loss	—	—	—	(1,044)	—	(12)	(1,056)
Foreign currency translation adjustments	—	—	—	—	32	—	32
Equity-based compensation	—	—	1,178	—	—	—	1,178
Balance - June 25, 2021	59,217	$ 592	$ 671,356	$ (50,076)	$ 736	$ 282	$ 622,890

See accompanying Notes to the Condensed Consolidated Financial Statements.

Snap One Holdings Corp. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Six Months Ended	
	July 1, 2022	**June 25, 2021**
Cash flows from operating activities:		
Net loss	$ (3,600)	$ (7,092)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	29,855	27,910
Amortization of debt issuance costs	921	3,051
Deferred income taxes	(6,462)	408
Loss on sale and disposal of property and equipment	81	205
Equity-based compensation	12,367	2,238
Non-cash operating lease expense	6,298	—
Bad debt expense	100	180
Fair value adjustment to contingent value rights	(6,075)	2,840
Provision for credit losses on notes receivable	5,872	—
Change in operating assets and liabilities:		
Accounts receivable	(4,851)	(6,313)
Inventories	(58,262)	(15,234)
Prepaid expenses and other assets	5,273	(6,481)
Accounts payable, accrued liabilities and operating lease liabilities	(1,070)	(6,327)
Net cash used in operating activities	(19,553)	(4,615)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(25,639)	(25,821)
Purchases of property and equipment	(6,414)	(4,413)
Issuance of notes receivable	(600)	—
Other	45	(429)
Net cash used in investing activities	(32,608)	(30,663)
Cash flows from financing activities:		
Payments on long-term debt	(1,163)	(3,595)
Proceeds from revolving credit facility	47,000	—
Repurchase and retirement of common stock	(918)	—
Payment of deferred initial public offering costs	—	(2,730)
Net cash provided by (used in) financing activities	44,919	(6,325)
Effect of exchange rate changes on cash and cash equivalents	(2,017)	(5)
Net decrease in cash and cash equivalents	(9,259)	(41,608)
Cash and cash equivalents at beginning of the period	40,577	77,458
Cash and cash equivalents at end of the period	$ 31,318	$ 35,850
Supplementary cash flow information:		
Cash paid for interest	$ 14,657	$ 16,083
Cash paid for taxes, net	$ 3,445	$ 743
Noncash investing and financing activities:		
Noncash equity contribution	$ —	$ 10,025
Capital expenditure in accounts payable	$ 321	$ 251

See accompanying Notes to the Condensed Consolidated Financial Statements.

1. Organization and Description of Business

Snap One Holdings Corp. (referred to herein as “Snap One” or the “Company”) is incorporated in Delaware with its principal executive offices located in Charlotte, North Carolina and Draper, Utah. The Company provides products, services, and software to its network of professional integrators that enable them to deliver smart living experiences for their residential and small business end users. The Company’s hardware and software portfolio includes leading proprietary and third-party offerings across connected, infrastructure, and entertainment categories. Additionally, the Company provides technology-enabled workflow solutions to support the integrator throughout the project lifecycle, enhancing their operations and helping them to profitably grow their businesses.

Initial Public Offering — On July 30, 2021, the Company completed its initial public offering (“IPO”) of 13,850 shares of its common stock, and on August 18, 2021, completed the sale of 1,171 shares of additional common stock to the underwriters pursuant to their option to purchase additional shares, at an offering price of $18.00 per share. The Company raised net proceeds of $249,154 through the IPO, after deducting underwriting discounts and other offering costs of $21,219. During the three months and six months ended June 25, 2021, the Company expensed $1,210 and $2,921 of IPO-related costs. There were no expenses related to the IPO during the three months and six months ended July 1, 2022. The Company’s registration statement on Form S-1 (File No. 333-257624) relating to its IPO was declared effective by the Securities and Exchange Commission (the “SEC”) on July 27, 2021.

2. Significant Accounting Policies

Basis of Presentation — The accompanying condensed consolidated financial statements are unaudited and have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial statements. The condensed consolidated financial statements were prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s financial position, results of operations and cash flows for the periods presented. The condensed consolidated financial statements include the accounts of the Company and all subsidiaries required to be consolidated. All intercompany balances and transactions have been eliminated in the condensed consolidated financial statements. The condensed consolidated balance sheet as of December 31, 2021, has been derived from the audited consolidated financial statements of the Company.

The accompanying condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the fiscal year ended December 31, 2021, appearing in the Company’s Annual Report on Form 10-K for the annual period ended December 31, 2021, as amended by the Form 10-K/A filed with the Securities and Exchange Commission on April 25, 2022 (as amended, the “Annual Report”).

The Company’s fiscal year is the 52- or 53-week period that ends on the last Friday of December. Fiscal year 2022 is a 52-week period, and fiscal year 2021 was a 53-week period. The three months ended July 1, 2022, and June 25, 2021, were 13-week periods, and the six months ended July 1, 2022, and June 25, 2021, were 26-week periods.

Use of Accounting Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying notes. Accordingly, the actual amounts could differ from those estimates. If actual amounts differ from estimates, revisions are included in the condensed consolidated statements of operations in the period the actual amounts become known.

Recent Accounting Pronouncements Pending Adoption — In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (Accounting Standards Codification 848, “ASC 848”). The amendments in this ASU were put forth in response to the market transition from the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates. GAAP requires entities to evaluate whether a contract modification, such as the replacement or change of a reference rate, results in the establishment of a new contract or continuation of an existing contract. ASC 848 allows an entity to elect not to apply certain modification accounting requirements to contracts affected by reference rate reform. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*. The objective of the new reference rate reform standard is to clarify the scope of Topic 848 and provide explicit guidance to help companies applying optional expedients and exceptions. The provisions of these updates are only available until December 31, 2022, when the reference rate replacement activity is expected to be completed. Our exposure related to the expected cessation of LIBOR is limited to the interest expense and certain fees we incur on balances outstanding under our credit facilities. We do not expect that there will be a material impact to the financial statements as a result of adopting these ASUs.

In October, 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 606): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires that an entity recognize and measure contract assets and liabilities from contracts with customers in a business combination in accordance with ASC 606 as if it had originated the contracts. The amendment in this update is effective for fiscal years beginning after December 15, 2022, with early adoption permitted. The guidance should be applied prospectively to business combinations occurring on or after the effective date of the amendment in this update. We do not expect the adoption of this update to have a material impact to our financial statements.

Recently Adopted Accounting Pronouncements — In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This new guidance requires lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. Recently, the FASB issued ASU 2020-05, which deferred the effective date to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

The Company adopted the new leasing standard as of January 1, 2022, using the modified retrospective approach. Therefore, results for reporting periods beginning after January 1, 2022 are presented under *Topic 842*, while comparative information has not been restated and continues to be reported under accounting standards in effect for those periods. There was not a cumulative-effect adjustment to accumulated deficit at the beginning of the period of adoption. In adopting the new guidance, the Company elected the package of practical expedients permitted under the transition guidance within the standard, which eliminates the reassessment of whether existing contracts contain leases, lease classification and capitalization of initial direct costs. The Company also elected an accounting policy to not recognize assets or liabilities for leases with a term of less than 12 months, to not separate lease and non-lease components for all asset classes and not elect to use the hindsight practical expedient. The adoption of the new leasing standard resulted in the recognition of approximately $40,906 and $43,862 of right-of-use (“ROU”) assets and lease liabilities, respectively, on the Company’s condensed consolidated balance sheets for its operating lease commitments. The difference between the ROU assets and lease liabilities is primarily attributable to deferred rent and lease incentives. The adoption of the standard did not have a material impact on the Company’s condensed consolidated statements of operations or on the condensed consolidated statements of cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses*. The ASU sets forth a current expected credit loss (“CECL”) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10 which deferred the effective date to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company early adopted the standard for the fiscal year beginning January 1, 2022. Adoption of the standard did not have a material impact on the condensed consolidated financial statements.

3. Acquisitions

All of the Company’s acquisitions have been accounted for under ASC 805, *Business Combinations*. Accordingly, the accounts of the acquired companies, after adjustments to reflect fair values assigned to assets and liabilities, have been included in the consolidated financial statements from their respective dates of acquisition.

(in thousands, except per share amounts)

The Company records purchase price in excess of amounts allocated to identifiable assets and liabilities as goodwill. Goodwill includes, but is not limited to, the value of the workforce in place, ability to generate profits and cash flows, and an established going concern.

Customer relationships have been valued using the multi-period excess earnings method, a derivative of the income approach. The multi-period excess earnings method estimates the discounted net earnings attributable to the customer relationships that were acquired after considering items such as possible customer attrition. Estimated useful lives were determined based on the length and trend of projected cash flows. The length of the projected cash flow period was determined based on the expected attrition of the customer relationships, which is based on the Company's historical experience in renewing and extending similar customer relationships and future expectations for renewing and extending similar existing customer relationships. The useful life of the customer relationships intangible assets represents the number of years over which the Company expects the customer relationships to economically contribute to the business.

The trade name has been valued using the relief from royalty method under the income approach to estimate the cost savings that will accrue to the Company, which would otherwise have to pay royalties or license fees on revenue earned by using the asset. Estimated useful life was determined based on management's estimate of the period of time the name will be in use.

Staub Electronics, LTD. — On January 20, 2022, the Company, through its wholly owned subsidiary, Snap One Acquisition Corp., entered into a Purchase Agreement ("Purchase Agreement") pursuant to which it acquired the issued and outstanding shares of Staub Electronics, LTD. ("Staub"), a long-time Canadian distribution partner. The acquisition adds two Canadian locations to the Company's distribution footprint. The Company agreed to a purchase price of $26,395.

The Company recorded tangible and intangible assets acquired and liabilities assumed in the transaction according to the acquisition method of accounting, under ASC 805, *Business Combinations*. The consideration was allocated to the assets acquired and liabilities assumed based on their fair values as of the closing date and are subject to change within the measurement period, which does not exceed twelve months after the closing date. The purchase price allocation and consideration are considered preliminary based on potential working capital adjustments. As of July 1, 2022, all recorded adjustments relate to working capital. The Company allocated any excess purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed to goodwill.

The preliminary allocation of the purchase price for the acquisition is as follows:

Total purchase consideration	$ 26,395
Cash and cash equivalents	$ 756
Accounts receivable	1,801
Inventory	5,472
Prepaid expenses	1,616
Property and equipment	451
Operating lease right-of-use assets	2,309
Identifiable intangible assets	14,209
Total identifiable assets acquired	26,614
Accounts payable	1,570
Accrued liabilities	2,206
Current operating lease liability	343
Deferred income tax liabilities	3,585
Operating lease liability, net of current portion	1,953
Total liabilities assumed	9,657
Net identifiable assets acquired	16,957
Goodwill	9,438
Net assets acquired	$ 26,395

(in thousands, except per share amounts)

The Company recorded intangible assets related to the acquisition based on estimated fair value, which consisted of the following:

	Useful Lives (Years)	Acquired Value
Customer relationships	10	$ 12,684
Trade name	6	1,525
Total intangible assets		$ 14,209

The Company recognized $328 of transaction-related expenses, consisting primarily of advisory, legal, and other professional fees related to the acquisition. These transaction-related expenses were incurred by and for the benefit of the Company, and were included in selling, general, and administrative expenses in the condensed consolidated statements of operations.

Pro forma financial information related to the Staub acquisition has not been provided as it is not material to the Company's consolidated results of operations. The results of operations of the Staub acquisition are included in the Company's consolidated results of operations from the date of acquisition and were not significant for the three months and six months ended July 1, 2022.

ANLA, LLC — On May 4, 2021, the Company entered into a Purchase Agreement pursuant to which it acquired the issued and outstanding shares of ANLA, LLC. ("Access Networks"), an enterprise-grade networking solutions provider offering networking products, design, configuration, monitoring and support services. The acquisition enhances the Company's networking solutions for residential and commercial networks. The Company agreed to a purchase price of $36,334, consisting of both cash and equity, plus contingent consideration of up to $2,000 based upon the achievement of specified financial targets. The acquisition closed on May 28, 2021. During the measurement period, certain adjustments were recorded to increase the purchase price to $36,641 and goodwill to $21,026 to account for updated working capital and deferred tax liability calculations.

The Company recorded tangible and intangible assets acquired and liabilities assumed in the transaction according to the acquisition method of accounting, under ASC 805, *Business Combinations*. The consideration was allocated to the assets acquired and liabilities assumed based on their fair values as of the closing date and are subject to change within the measurement period, which does not exceed twelve months after the closing date. The Company allocated any excess purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed to goodwill. Goodwill arising from the acquisition primarily consists of synergies from integrating the distribution of products through the Company's existing distribution channels.

The Company may be required to pay additional consideration upon the achievement of a revenue-based earnout. As of the acquisition date, the fair value of the contingent consideration was $2,000.

The acquisition was initially funded using cash consideration of $26,309, rollover equity of $10,025, and contingent consideration of $2,000. During the measurement period, cash consideration increased to $26,616 to account for updated working capital calculations.

(in thousands, except per share amounts)

The allocation of the purchase price for the acquisition is as follows:

Total purchase consideration	$	38,641
Cash and cash equivalents	$	795
Accounts receivable		794
Inventory		2,029
Property and equipment		77
Identifiable intangible assets		17,700
Total identifiable assets acquired		21,395
Accounts payable		1,266
Accrued liabilities		1,218
Other liabilities		586
Deferred income tax liabilities		710
Total liabilities assumed		3,780
Net identifiable assets acquired		17,615
Goodwill		21,026
Net assets acquired	$	38,641

For income tax purposes, a carryover basis in goodwill of $13,616 will be deductible in future periods.

The Company recorded intangible assets related to the acquisition based on estimated fair value, which consisted of the following:

	Useful Lives (Years)		Acquired Value
Customer relationships	10	$	14,400
Trade name	6		3,300
Total intangible assets		$	17,700

Other liabilities assumed consisted primarily of warranty reserves and deferred revenue. The long-term warranty reserves are primarily based on historical failure rates, costs to repair or replace the product, and any necessary shipping costs, which are considered to approximate the fair value of the remaining obligation. Deferred revenue was recorded at fair value, resulting in a cumulative balance for the acquisition of $883 in accrued liabilities and $586 in other liabilities.

The Company recognized $197 of transaction-related expenses, consisting primarily of advisory, legal, and other professional fees related to the acquisition. These transaction-related expenses were incurred by and for the benefit of the Company, and were included in selling, general, and administrative expenses in the condensed consolidated statements of operations.

Pro forma financial information related to the Access Networks acquisition has not been provided as it is not material to the Company's consolidated results of operations. The results of operations of the Access Networks acquisition are included in the Company's consolidated results of operations from the date of acquisition and were not significant for the three months and six months ended June 25, 2021.

4. Revenue and Geographic Information

Contract Balances — Amounts invoiced in advance of revenue recognition are recorded as deferred revenue on the condensed consolidated balance sheets. Deferred revenue primarily relates to unspecified software updates and upgrades, hosting, technical support, marketing incentive programs, and subscription services. The following table represents the changes in deferred revenue for the six months ended July 1, 2022, and June 25, 2021:

(in thousands, except per share amounts)

	Six Months Ended	
	July 1, 2022	June 25, 2021
Deferred revenue – beginning of period	$ 33,385	$ 30,466
Amounts billed, but not recognized	17,686	13,271
Recognition of revenue	(14,907)	(13,592)
Deferred revenue acquired	—	1,469
Deferred revenue – end of period	$ 36,164	$ 31,614

The Company recorded deferred revenue of $23,613 in accrued liabilities and $12,551 in other liabilities as of July 1, 2022. The Company recorded deferred revenue of $20,944 in accrued liabilities and $12,441 in other liabilities as of December 31, 2021.

Disaggregation of Revenue — The following table sets forth revenue by geography between the United States and all geographies outside of the United States for the three months and six months ended July 1, 2022 and June 25, 2021:

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
United States integrators[(a)]	$ 238,675	$ 209,526	$ 464,081	$ 395,189
United States other[(b)]	17,814	14,294	31,167	22,709
International[(c)]	40,416	29,485	79,091	55,875
Total	$ 296,905	$ 253,305	$ 574,339	$ 473,773

(a) United States integrators is defined as professional "do-it-for-me" integrator customers who transact with Snap One through a traditional integrator channel and excludes the impact of recently acquired businesses domestically.
(b) United States other is defined as recently acquired entities and revenue generated through managed transactions with non-integrator customers, such as national accounts.
(c) International consists of all integrators and distributors who transact with Snap One outside of the United States.

The following table sets forth revenue by product type between proprietary products and third-party products for the three months and six months ended July 1, 2022, and June 25, 2021:

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Proprietary products[(a)]	$ 208,196	$ 180,418	$ 395,993	$ 332,455
Third-party products[(b)]	88,709	72,887	178,346	141,318
Total	$ 296,905	$ 253,305	$ 574,339	$ 473,773

(a) Proprietary products consist of product and services internally developed by Snap One and sold under one of Snap One's proprietary brands.
(b) Third-party products consist of product that Snap One distributes but to which Snap One does not own the intellectual property.

(in thousands, except per share amounts)

Additionally, the Company's revenue includes amounts recognized over time and at a point in time, and are as follows for the three months and six months ended July 1, 2022, and June 25, 2021:

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Products transferred at a point in time	$ 289,279	$ 245,776	$ 559,432	$ 460,181
Services transferred over time	7,626	7,529	14,907	13,592
Total	$ 296,905	$ 253,305	$ 574,339	$ 473,773

As of July 1, 2022, and December 31, 2021, the Company's accounts receivable, net consisted of the following:

	July 1, 2022	December 31, 2021
Accounts receivable	$ 61,459	$ 55,088
Allowance for doubtful accounts	(2,287)	(2,468)
Accounts receivable, net	$ 59,172	$ 52,620

5. Inventories, Net

As of July 1, 2022, and December 31, 2021, the Company's inventory consisted of the following:

	July 1, 2022	December 31, 2021
Finished goods	$ 272,655	$ 210,540
Raw materials	13,228	10,454
Work in process	342	548
Reserve for obsolete and slow-moving inventory	(11,528)	(10,578)
Total inventories, net	$ 274,697	$ 210,964

(in thousands, except per share amounts)

6. Goodwill and Other Intangible Assets, Net

Goodwill as of July 1, 2022, and December 31, 2021, was $590,199 and $580,761, respectively. Goodwill increased by $9,438 in 2022 due to the acquisition of Staub. During the year ended December 31, 2021, goodwill increased by $21,026 due to the acquisition of Access Networks. See Note 3 of the Notes to the Condensed Consolidated Financial Statements for more information regarding Staub and Access Networks.

As of July 1, 2022, and December 31, 2021, other intangible assets, net, consisted of the following:

		July 1, 2022		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5 – 25 years	$ 521,846	$ (110,117)	$ 411,729
Technology	5 – 15 years	95,078	(46,129)	48,949
Trade names – definite	2 – 10 years	59,185	(20,268)	38,917
Trade names – indefinite	indefinite	76,564	—	76,564
Total intangible assets		$ 752,673	$ (176,514)	$ 576,159

		December 31, 2021		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5 – 25 years	$ 509,162	$ (96,149)	$ 413,013
Technology	5 – 15 years	95,078	(38,221)	56,857
Trade names – definite	2 – 10 years	57,660	(16,902)	40,758
Trade names – indefinite	indefinite	76,564	—	76,564
Total intangible assets		$ 738,464	$ (151,272)	$ 587,192

Total amortization expense for intangible assets for the three months ended July 1, 2022, and June 25, 2021, was $12,581 and $12,079, respectively. Total amortization expense for intangible assets for the six months ended July 1, 2022, and June 25, 2021, was $25,242 and $23,967, respectively. The weighted-average useful life remaining for amortizing definite lived intangible assets was approximately 14.8 years as of July 1, 2022.

As of July 1, 2022, the estimated amortization expense for intangible assets for the next five fiscal years and thereafter are as follows:

Remainder of 2022	$ 24,601
2023	48,705
2024	42,204
2025	34,588
2026	34,588
2027 and thereafter	314,909
Total	$ 499,595

7. Debt Agreements

On August 4, 2017, the Company's wholly owned subsidiary, Wirepath LLC ("Borrower") entered into a credit agreement (as amended from time to time, "Old Credit Agreement"), consisting of a senior secured term loan ("Initial Term Loan") and a senior secured revolving credit facility ("Old Revolving Credit Facility"). On February 5, 2018, the Borrower repriced the Old Credit Agreement to reduce the margin on the Initial Term Loan and Old Revolving Credit Facility. On October 31, 2018, the Borrower repriced the Initial Term Loan facility to further reduce the margin under the

(in thousands, except per share amounts)

Initial Term Loan, increased the aggregate amount of the Initial Term Loan, and further reduced the margin under the Old Revolving Credit Facility. On August 1, 2019, the Borrower amended the Old Credit Agreement to borrow an additional senior secured term loan ("Incremental Term Loan" and, together with the Initial Term Loan, as amended, "Old Term Loans") and increased the commitments under the Old Revolving Credit Facility. The Company made fixed equal quarterly installments on the Old Term Loans in an amount equal to 1.0% per annum of the total aggregate principal thereof immediately after borrowing, with balance due at maturity.

On August 4, 2021, the Company used a portion of the net proceeds from the IPO to prepay $216,902 in aggregate of the amount of the Incremental Term Loan outstanding under the Old Credit Agreement. The prepayment consisted of $215,874 in principal plus accrued interest of $1,028. In connection with the prepayment, the Company incurred a charge of $6,645 related to the write off of the proportionate amount of the unamortized debt issuance costs at the time of the prepayment which was recorded in loss on extinguishment of debt on the Company's consolidated statement of operations. The unamortized debt issuance costs are allocated between the remaining original loan balance and the portion of the loan paid down on a pro-rata basis.

On December 8, 2021, the Company entered into a Credit Agreement (the "Credit Agreement") with various financial institutions consisting of a $465,000 in aggregate principal amount of senior secured term loans maturing in seven years (the "New Term Loan") and a $100,000 senior secured revolving credit facility (which includes borrowing capacity available for letters of credit) maturing in five years (the "New Revolving Credit Facility").

In connection with the closing of the Credit Agreement, the Company repaid in full approximately $451,400 of borrowings, including accrued interest, under the Old Credit Agreement. The Old Term Loans and Old Revolving Credit Facility and related agreements and documents under the Old Credit Agreement were terminated upon the effectiveness of the Credit Agreement.

Borrowings under the New Term Loan will bear interest at a rate per annum equal to, at the Company's option, either (1) an applicable margin plus a base rate determined by reference to the highest of (a) 0.50% per annum plus the federal funds effective rate, (b) the prime rate and (c) the eurocurrency rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%; provided that such rate is not lower than a floor of 1.50% or (2) an applicable margin plus a eurocurrency rate determined by reference to the cost of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs; provided that such rate is not lower than a floor of 0.50%.

Borrowings under the New Revolving Credit Facility will bear interest at a rate per annum equal to an applicable margin based upon a leverage-based pricing grid, plus, at the Company's option, either (1) a base rate determined by reference to the highest of (a) 0.50% per annum plus the federal funds effective rate, (b) the prime rate and (c) the eurocurrency rate determined by reference to the cost of funds adjusted for certain additional costs, plus 1.00%; provided such rate is not lower than a floor of 1.00% or (2) a eurocurrency rate determined by reference to the applicable cost of funds for such borrowing adjusted for certain additional costs; provided such rate is not lower than a floor of zero. As of July 1, 2022, the interest rates for the New Term Loan and the New Revolving Credit Facility were 5.00%.

The New Term Loan amortizes in fixed equal quarterly installments in an amount equal to 1.0% per annum of the total aggregate principal amount thereof immediately after borrowing, with the balance due at maturity. The Company may voluntarily prepay loans or reduce commitments under the Credit Agreement, in whole or in part, subject to minimum amounts, with prior notice but without premium or penalty (subject to customary exceptions).

The principal amounts outstanding under the Credit Agreement as of July 1, 2022 and December 31, 2021 were as follows:

Instrument	Maturity Date	7/1/2022	12/31/2021
Credit Agreement			
New Term Loan	12/8/2028	$ 463,837	$ 465,000
New Revolving Credit Facility	12/8/2026	$ 47,000	$ —

(in thousands, except per share amounts)

The Company may also be required to make additional payments under the financing agreement equal to a percentage of the Company’s annual excess cash flows or net proceeds from any non-ordinary course asset sales or certain debt issuances, if any. The lender has the option to decline the prepayment.

As of July 1, 2022, the Company had $47,000 outstanding under the New Revolving Credit Facility. As of December 31, 2021, the Company had no borrowings outstanding under the New Revolving Credit Facility. As of July 1, 2022 and December 31, 2021, the Company had $5,254 and $4,894 of outstanding letters of credit. The amount available under the New Revolving Credit Facility was $47,746 and $95,106 as of July 1, 2022, and December 31, 2021, respectively.

As of July 1, 2022, the future scheduled maturities of the above notes payable are as follows:

Remainder of 2022	$	2,325
2023		4,650
2024		3,488
2025		4,650
2026		51,650
2027		5,813
Thereafter		438,262
Total future maturities of debt		510,838
Unamortized debt issuance costs		(12,841)
Total indebtedness		497,997
Less: Current maturities of long-term debt		4,650
Long-term debt and revolving credit facility	$	493,347

Unamortized costs related to the issuance of the New Term Loan were $11,488 and $12,256 as of July 1, 2022, and December 31, 2021, and were presented as a direct deduction from the carrying amount of long-term debt. Unamortized costs related to the issuance of the New Revolving Credit Facility were $1,353 as of July 1, 2022, and were presented as a direct deduction from the carrying amount of the revolving credit facility. As of December 31, 2021, unamortized costs related to the issuance of the New Revolving Credit Facility were $1,506 and were included in other assets. The costs related to debt issuances are amortized to interest expense over the life of the related debt. As of July 1, 2022, the future amortization of debt issuance costs was as follows:

Remainder of 2022	$	937
2023		1,925
2024		1,993
2025		2,066
2026		2,123
2027		1,918
Thereafter		1,879
Total	$	12,841

Debt Covenants and Default Provisions — There have been no changes to the debt covenants or default provisions related to the Company’s outstanding debt arrangements or other obligations during the current year. The Company was in compliance with all debt covenants as of July 1, 2022, and December 31, 2021. For additional information on the Company’s debt arrangements, debt covenants and default provisions, see Note 8 of the Notes to the Consolidated Financial Statements for the year ended December 31, 2021, in the Annual Report.

(in thousands, except per share amounts)

8. Fair Value Measurement

Fair Value of Financial Instruments — The fair values and related carrying values of financial instruments that are not required to be remeasured at fair value on the condensed consolidated statements of operations were as follows:

	As of July 1, 2022		As of December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Notes receivable, net	$ 1,503	$ 1,503	$ 6,484	$ 6,764
Liabilities				
New Term Loan	$ 463,837	$ 426,731	$ 465,000	$ 462,675

The fair value of notes receivable are estimated using a discounted cash flow analysis using interest rates currently offered for loans with similar credit quality which represent Level 2 inputs, and are included in other assets and other current assets on the balance sheet. The fair value of long-term debt was established using current market rates for similar instruments traded in secondary markets representing Level 2 inputs. The fair value of the Revolving Credit Facility approximates carrying value as the related interest rates approximate the Company's incremental borrowing rate for similar obligations. Additionally, cash and cash equivalents, accounts receivable, net, prepaid expenses, accounts payable, and accrued liabilities are classified as Level 1 and the carrying value of these assets and liabilities approximates the fair value due to the short-term nature of these financial instruments.

Notes Receivable — During the second quarter of 2022, the Company increased its provision for credit losses to $5,872, representing a portion of the principal and accrued interest due to the Company under its unsecured loan to Clare Controls, LLC ("Clare"). The Company evaluated the expected credit losses for the Clare notes receivable as of July 1, 2022, in consideration of internal and external sources which may affect Clare's ability to repay the loans upon maturity, including the Company's acquisition of Clare subsequent to fiscal second quarter end. In connection with the transaction, certain credit obligations owed by Clare to third-parties were forgiven or settled at reduced rates. During the three months and the six months ended July 1, 2022, the Company has recorded a provision for credit loss of $5,872 on assets measured at fair value on a nonrecurring basis. The provision for credit losses was derived using Level 3 inputs and was primarily driven by a revised yield and credit rating analysis. The provision for credit losses is included in selling, general and administrative expenses on the condensed consolidated statement of operations for the three and six months ended July 1, 2022.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis — The Company utilizes a Monte Carlo simulation in an option pricing framework, where a range of possible scenarios are simulated, in order to determine the fair value of the contingent value rights ("CVRs"). Any future increase in the fair value of the CVR obligations, based on an increased likelihood that the underlying milestones will be achieved, and the associated payment or payments will, therefore, become due and payable, will result in a charge to selling, general and administrative expenses in the period in which the increase is determined. Similarly, any future decrease in the fair value of the CVR obligations will result in a reduction in selling, general and administrative expenses. CVR liabilities are categorized as other liabilities in the accompanying condensed consolidated balance sheets and are classified as Level 3.

	Fair value at July 1, 2022	Valuation Technique	Unobservable Input	Volatility
Contingent Value Rights	$2,825	Monte Carlo	Volatility	50 and 60%

Changes in the CVRs for the six months ended July 1, 2022, and June 25, 2021 were as follows:

	July 1, 2022	June 25, 2021
CVR fair value – beginning of period	$ 8,900	$ 4,000
Fair value adjustments	(6,075)	2,840
CVR fair value – end of period	$ 2,825	$ 6,840

The fair value of the contingent consideration liability related to the Access Networks acquisition was based on unobservable inputs, including management estimates and assumptions about future revenues, and is, therefore, classified as Level 3. The fair value of the contingent consideration was $2,000 as of July 1, 2022 and recorded in other current liabilities in the accompanying condensed consolidated balance sheet.

(in thousands, except per share amounts)

The fair value of the interest rate cap is determined using widely accepted valuation techniques based on its maturity and observable market-based inputs, including interest rate curves. This measurement is considered a Level 2 measurement. The interest rate cap expired on December 31, 2021 and had no value as of December 31, 2021.

There were no transfers into or out of Level 3 during the three months and six months ended July 1, 2022, or June 25, 2021.

9. Accrued Liabilities

Accrued liabilities as of July 1, 2022, and December 31, 2021, consisted of the following:

	July 1, 2022	December 31, 2021
Deferred revenue	$ 23,613	$ 20,944
Warranty reserve	11,848	14,549
Payroll, vacation, and bonus accruals	14,895	21,340
Customer rebate program	4,773	4,775
Sales return allowance	4,441	3,999
Contingent consideration	2,000	—
Taxes	1,904	1,774
Incurred but not reported self-insurance	1,710	1,556
Interest payable	389	1,523
Other accrued liabilities	5,926	5,057
Total accrued liabilities	$ 71,499	$ 75,517

10. Warranties

Changes in the Company’s accrued warranty liability for the six months ended July 1, 2022, and June 25, 2021, are as follows:

	July 1, 2022	June 25, 2021
Accrued warranty – beginning of period	$ 18,772	$ 16,523
Warranty claims	(5,518)	(5,810)
Warranty provisions	3,019	8,588
Accrued warranty – end of period	$ 16,273	$ 19,301

As of July 1, 2022, the Company has recorded accrued warranty liabilities of $11,848 in accrued liabilities and $4,425 in other liabilities in the accompanying consolidated balance sheet. As of December 31, 2021, the Company has recorded accrued warranty liabilities of $14,549 in accrued liabilities and $4,223 in other liabilities.

11. Retirement Plan

The Company has a 401(k) plan that covers eligible employees as defined by the plan agreement. As of January 1, 2020, the Company matches 100% of employee contributions to the plan, up to 3% of the employees’ total compensation, and 50% of employee contributions to the plan, up to 6% of the employees’ total compensation. Company contributions to the plan, net of forfeitures, were $1,292 and $919 for the three months ended July 1, 2022, and June 25, 2021, respectively. Company contributions to the plan, net of forfeitures, were $2,823 and $2,089 for the six months ended July 1, 2022, and June 25, 2021, respectively.

(in thousands, except per share amounts)

12. Equity Agreements and Incentive Equity Plans

Former Parent Incentive Plan — In October 2017, the Former Parent Entity approved the Class B Unit Incentive Plan (the “2017 Plan”) pursuant to the Company’s partnership agreement. Class B-1 Incentive Units (“B-1 Units”) issued under the 2017 Plan vest in installments over a five-year period, subject to the grantee’s continued employment or service. Class B-2 Incentive Units (“B-2 Units” and collectively with the B-1 Units, “Incentive Units”) issued under the 2017 Plan contain both service conditions consistent with the B-1 Units and market-based vesting conditions that require the achievement of a specified return hurdle to the controlling shareholders in order to vest. The Company recognized $1,178 and $2,238 of compensation expense within selling, general and administrative expenses related to Incentive Units for the three months and six months ended June 25, 2021.

2021 Incentive Plan — On July 16, 2021, the Company adopted the 2021 Equity Incentive Plan (the “2021 Plan”) in order to provide a means through which to attract, retain, and motivate key personnel. Awards available for grant under the 2021 Plan include non-qualified and incentive stock options, restricted shares of our common stock, and other equity-based awards tied to the value of our common stock and cash-based awards.

Equity Award Conversion — During the year ended December 31, 2021, and in connection with the IPO, all outstanding unvested Incentive Units were replaced with newly issued shares of our restricted common stock. Vested Incentive Units were exchanged into shares of our common stock using the same formula as unvested Incentive Units (together, the “Equity Award Conversion”). The restricted shares of common stock that the holders received in exchange for their unvested B-1 Units are subject to the same vesting terms that applied to the B-1 Units prior to the Equity Award Conversion.

The restricted stock awards issued to replace B-2 Units vest based upon achievement of one or more hurdles, which are substantially the same as the previous market-condition vesting criteria of the B-2 Units. Although the restricted stock awards that replace the B-2 Units do not contain an explicit service condition, the vesting is subject to continued employment, resulting in a derived service period. For additional information on the Equity Award Conversion, see Note 13 of the Notes to the Consolidated Financial Statements for the year ended December 31, 2021, in the Annual Report.

Restricted Stock Awards

In connection with the IPO, the Company issued restricted common stock to holders of unvested B-1 Units and B-2 Units. The grant date fair value of restricted stock awards was determined to be $18.00 per share, based on the initial listing price of the Company’s common stock on the grant date.

The summary of the Company’s restricted stock awards activity is as follows:

	Restricted Stock Awards			
	B-1 Incentive Units		B-2 Incentive Units	
	Number of Units	Weighted-Average Grant-Date Fair Value	Number of Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2021	633	$ 18.00	807	$ 18.00
Granted	—	—	—	—
Vested	203	18.00	—	—
Forfeited	8	18.00	—	—
Outstanding at July 1, 2022	422	$ 18.00	807	$ 18.00

Stock Options

In connection with the IPO, the Company granted options to holders of B-1 Units (“Time-based Options”) and options to holders of B-2 Units (“Market-based Options” and collectively with the Time-based Options, “Leverage Replacement Options”), as further discussed in Note 13 of the Notes to the Consolidated Financial Statements for the year ended December 31, 2021, in the Annual Report.

(in thousands, except per share amounts)

The summary of the Company's option activity is as follows:

	Time-based Options			Market-based Options		
	Number of Units	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value [(a)]	Number of Units	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value [(a)]
Outstanding at December 31, 2021	4,393	$ 6.49	$ 13,532	1,155	$ 5.66	$ 3,558
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Forfeited	77	7.25	—	—	—	—
Outstanding at July 1, 2022	4,316	$ 6.48	$ —	1,155	$ 5.66	$ —
Options exercisable at July 1, 2022	2,726	$ 6.11	$ —	—	$ —	$ —

(a) The intrinsic value represents the amount by which the fair value of the Company's stock exceeds the option exercise price as of July 1, 2022.

Restricted Stock Units — The Company grants restricted stock units ("RSUs") with time-based vesting requirements under the 2021 Plan. These RSUs typically have an initial annual cliff vest and then vest quarterly over the remaining service period, which is generally one to four years. The fair value of RSUs is based on the Company's closing stock price on the date of grant.

The summary of the Company's RSU activity is as follows:

	Restricted Stock Units	
	Number of Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2021	390	$ 18.22
Granted	930	19.13
Vested	70	18.11
Forfeited	47	19.40
Outstanding at July 1, 2022	1,203	$ 18.88

Performance Stock Units — During the six months ended July 1, 2022, the Company granted performance-based restricted stock units ("PSUs") to certain employees under the 2021 Plan. The fair value of PSUs granted is based on the Company's closing stock price on the date of grant. Each PSU grant vests in annual tranches over a three-year service period. Total units earned for grants may vary between 0% and 200% of the units granted based on the attainment of net sales and company-specific adjusted EBITDA targets during the performance period (generally the fiscal year of the date of the grant) and upon continued service. Compensation expense for PSUs is recognized on a graded-vesting basis if it is probable that the performance conditions will be achieved. Adjustments to compensation expense are made each period based on changes in our estimate of the number of PSUs that are probable of vesting. PSUs will vest with continued service and upon achievement of the relevant performance targets.

(in thousands, except per share amounts)

The summary of the Company's PSU activity is as follows:

	Performance Stock Units	
	Number of Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2021	—	$ —
Granted	368	20.46
Exercised	—	—
Forfeited	2	20.46
Outstanding at July 1, 2022	366	$ 20.46

Other equity-based compensation — In connection with the Staub acquisition (see Note 3), the Company granted 69 shares of common stock with an aggregate fair value of $1,208 to a key executive. The shares are accounted for as equity-based compensation because the shares are subject to forfeiture based on post-acquisition time-based service vesting. The shares vest annually in equal installments over a three-year service period beginning on the acquisition date. The grant date fair value of the shares was determined to be $17.42 per share based on the Company's closing stock price on the date of the grant.

Total equity-based compensation expense — Equity-based compensation expense is included within selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. For all equity-based compensation awards, the Company recognizes forfeitures as they occur. Compensation expense for the three months and six months ended July 1, 2022 and unrecognized stock compensation expense and weighted average remaining expense period as of July 1, 2022 consisted of:

	Compensation Expense		As of July 1, 2022	
	Three months ended July 1, 2022	Six months ended July 1, 2022	Unrecognized Compensation Expense	Weighted-Average Remaining Contractual Term (Years)
2021 Plan				
Restricted stock awards	1,163	$ 2,308	$ 6,425	1.59
Time-based options	1,676	3,405	10,702	2.21
Market-based options	645	1,290	4,135	1.59
Restricted stock units	1,970	3,406	18,885	3.05
Performance stock units	1,134	1,699	5,796	1.64
Other equity-based compensation	100	179	1,029	2.55
Total	$ 6,688	$ 12,287	$ 46,972	2.13

Employee Stock Purchase Plan — The Company's Board of Directors adopted, and its shareholders approved, the Snap One Holdings Corp. 2022 Employee Stock Purchase Plan (the "ESPP"). The ESPP initially reserves 750 shares for issuance, which is subject to increase on the first day of each fiscal year in an amount equal to the lesser of: (i) the positive difference, if any, between (x) 1% of the outstanding common stock of the Company on the last day of the immediately preceding fiscal year and (y) the available plan reserve on the last day of the immediately preceding fiscal year and (ii) a lower number of shares of our common stock as determined by the board. The number of shares available for issuance under the ESPP is subject to adjustment for certain changes in our capitalization. Under the ESPP, shares of common stock may be purchased by eligible participants during defined purchase periods at 85% of the lesser of the closing price of the Company's common stock on the first day or last day of each purchase period.

The Company implemented the ESPP with the first purchase period beginning on May 23, 2022 and ending on November 22, 2022. The Company used a Black-Scholes option pricing model to value the common stock purchased as part of the Company's ESPP. The fair value estimated by the option pricing model is affected by the price of the common stock as well as subjective variables that include assumed interest rates, our expected dividend yield, and our expected share volatility over the term of the award. Fair value inputs for the purchase period in 2022 included assumed risk free interest rate of 1.6%, expected volatility of 45%, and expected dividend yield of 0%. Eligible participants contributed $278 during the three months and six months ended July 1, 2022, which is included in accrued liabilities in the accompanying consolidated balance sheet as of July 1, 2022. The Company recorded compensation expense of $80 which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations for the three months and six months ended July 1, 2022. Unrecognized compensation expense as of July 1, 2022 associated with the remaining ESPP purchase period through November 22, 2022 was $295.

Control4 Equity Awards — In connection with the acquisition of Control4 Corporation (“Control4”) in 2019, the Company agreed to a settlement of Control4 equity awards that were outstanding immediately prior to the acquisition date, consisting of stock options and restricted stock units. As of the acquisition date, 2,998 shares of Control4 awards were cancelled and converted into rights to receive cash payments (“Replacement Awards”).

The Company recognized $11 and $818 of compensation expense relating to the Replacement Awards within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations during the three months ended July 1, 2022 and June 25, 2021, respectively. The Company recognized $294 and $2,544 of compensation expense relating to the Replacement Awards within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations during the six months ended July 1, 2022 and June 25, 2021, respectively.

As of July 1, 2022, all Replacement Awards have vested and the related expense has been recognized.

13. Income Taxes

The effective income tax rate for the Company was a benefit of 10.8% and 12.7% for the three months and six months ended July 1, 2022, as compared to an expense of 12.7% and a benefit of 8.3% for the three months and six months ended June 25, 2021. The change in the effective tax rate for the three months and six months ended July 1, 2022, and the difference from the U.S. federal statutory rate of 21%, was primarily the result of allocation of income between jurisdictions, low pretax book income as compared to tax expense and a change in the state deferred rate.

Income tax benefit was $163 and $524 during the three months and six months ended July 1, 2022, compared to an expense of $119 and a benefit of $644 during the three months and six months ended June 25, 2021.

14. Tax Receivable Agreement

On July 29, 2021, the Company executed a tax receivable agreement (“TRA”) with certain pre-IPO owners (“TRA Participants”). The TRA provides for payment by the Company to the TRA Participants of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the Company utilizes in the future from net operating losses and certain other tax benefits that arose prior to the IPO. The Company recognizes this contingent liability in its condensed consolidated financial statements when incurrence of the liability becomes probable and amounts are reasonably estimable. Subsequent changes to the measurement of the TRA liability are recognized in the statements of income as a component of other (expense) income, net. The Company will retain the benefit of the remaining 15% of these cash tax savings.

Payments under the TRA will not begin until after the filing of the Company’s 2021 federal tax return. If the Company does not have taxable income (before considering deductions that are subject to the TRA), it is not required (absent circumstances requiring an early termination payment, other acceleration of its obligations under the TRA or a change of control) to make payments under the TRA for that taxable year because no cash tax savings will have been realized. However, unutilized deductions that do not result in realized benefits in a given tax year as a result of insufficient taxable income may be applied to taxable income in future years and accordingly would impact the amount of cash tax savings in such future years and the amount of corresponding payments under the TRA in such future years.

Upon the closing of the IPO, the Company recognized a non-current liability of $112,681, which represented undiscounted aggregate payments that it expects to pay the TRA Participants under the TRA, with an offset to additional paid-in capital. Subsequent changes in the measurement of the liability will be adjusted through the condensed consolidated statement of operations. The TRA liability is an estimate and estimating the amount of payments that may be made under the TRA is by its nature imprecise, insofar as the calculation of amounts payable depends on a variety of factors. The amount and timing of any payments under the TRA will vary depending upon a number of factors, including the amount, character and timing of the Company's income. As of July 1, 2022, the Company recognized a total liability of $112,406, of which $11,038 and $101,368 are recorded within the current and noncurrent tax receivable liability financial statement line items, respectively. TRA payments are anticipated to be made 125 days after filing the federal tax return. No measurement changes to the liability were recognized for the three months and six months ended July 1, 2022. As of December 31, 2021, the Company recognized a total liability of $112,406, which was recorded within the noncurrent tax receivable liability financial statement line item.

With respect to certain pre-IPO owners that are not TRA Participants, the Company paid $13,210 with cash on hand for their interests in lieu of their participation in the TRA. Approximately $2,754 of the cash payments to pre-IPO owners are subject to vesting requirements and are held in escrow until vested. The cash payments held in escrow are included in the condensed consolidated balance sheet in prepaid expenses and other current assets and are expensed over the requisite service period. The remaining $10,456 of the cash payments were expensed and paid or accrued in conjunction with the closing of the IPO. In total, $10,925 was recorded as compensation expense within selling, general and administrative expenses as disclosed in the consolidated statement of operations included in the Annual Report for the year ended December 31, 2021. During the three months and six months ended July 1, 2022, the Company recorded $279 and $558 in compensation expense within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations. There was no compensation expense recorded by the company for the three months and six months ended June 25, 2021.

15. Commitments and Contingencies

Legal Proceedings — During the normal course of business, the Company is occasionally involved with various claims and litigation. Reserves are established in connection with such matters when a loss is probable, and the amount of such loss can be reasonably estimated. As of July 1, 2022, and December 31, 2021, no significant reserves were recorded. The determination of probability and the estimation of the actual amount of any such loss are inherently unpredictable, and it is therefore possible that the eventual outcome of such claims and litigation could exceed the estimated reserves, if any. However, the Company does not expect the outcome of the matters currently pending will have a material adverse effect on the condensed consolidated financial statements.

16. Leases

The Company determines if an arrangement is a lease or contains a lease at inception. For all leases with a term longer than 12 months, operating leases are recorded under the noncurrent asset operating lease financial statement line item and the current and noncurrent operating lease liability financial statement line items on our condensed consolidated balance sheets. The Company has lease agreements with lease and non-lease components, which the Company has elected to account for as a single lease component for all asset classes. Lease expense is recognized on a straight-line basis over the lease term.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Since most of the Company's leases do not provide an implicit rate, the Company uses its own incremental borrowing rate ("IBR") on a collateralized basis in determining the present value of lease payments. The Company utilizes a market-based approach to estimate the IBR.

The Company's lease arrangements primarily consist of operating leases for offices, warehouse space, and distribution centers. The leases have remaining lease terms of 1 year to 10 years, some of which include options to extend for up to an additional 5 years, and some of which include options to terminate prior to completion of the contractual lease term with or without penalties. The Company's lease term only includes periods covered by options if those options are reasonably certain of being exercised (or not reasonably certain of being exercised as it relates to termination options). Variable lease payments that depend on an index or rate (such as the Consumer Price Index or a market interest rate) are included in the measurement of ROU assets and lease liabilities using the index or rate at the commencement date. Variable payments, other than those dependent upon an index or rate, are excluded from the measurement of the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. The variable lease cost primarily represents variable payments related to common area maintenance and utilities. The Company's leases do not contain any material residual value guarantees.

(in thousands, except per share amounts)

The components of the Company's lease costs are:

	Three Months Ended July 1, 2022	Six Months Ended July 1, 2022
Operating lease cost [(a)]	$ 3,533	$ 7,072
Variable lease cost	923	1,979
Short-term lease cost	76	186
Total lease cost	$ 4,532	$ 9,237

(a) Included in cost of sales, exclusive of depreciation and amortization, and selling, general and administrative expenses in the Company's unaudited condensed consolidated statement of operations.

Supplemental cash flow information and non-cash activity related to the Company's operating leases are as follows:

	Three Months Ended July 1, 2022	Six Months Ended July 1, 2022
Cash paid for amounts included in the measurement of lease liabilities	$ 3,399	$ 6,804
Non-cash activity:		
Right-of-use assets obtained in exchange for lease obligations	$ 842	$ 44,897

Weighted-average remaining lease term and discount rate for the Company's operating leases are as follows:

	As of July 1, 2022
Weighted-average remaining lease term	4.68 years
Weighted-average discount rate	4.38 %

As of July 1, 2022, future lease payments under non-cancelable lease commitments for the next five fiscal years and thereafter were as follows:

Remainder of 2022	$ 7,302
2023	10,628
2024	8,952
2025	7,676
2026	5,597
Thereafter	7,349
Total lease payments	47,504
Less: Imputed interest	4,993
Present value of lease liabilities	$ 42,511

As of July 1, 2022, the Company has entered into additional lease agreements for office space that have not yet commenced. Aggregate lease payments for these leases total $41,700 on an undiscounted basis.

(in thousands, except per share amounts)

The future minimum lease payments for operating lease obligations under ASC *Topic 840* as of December 31, 2021 were as follows:

2022	$	13,168
2023		9,255
2024		7,558
2025		6,357
2026		4,510
Thereafter		5,460
Total future minimum lease payments	$	46,308

Under ASC 840, Leases, total rental expense for the three months and six months ended June 25, 2021 was $2,771 and $5,899.

17. Stockholders' Equity

Holders of voting common stock are entitled to one vote per share and to receive dividends. The Company had noncontrolling interests of $224 and $261 as of July 1, 2022, and December 31, 2021, respectively.

Changes in noncontrolling interests each period include net income attributable to noncontrolling interests and cash contributions by minority partners to the Company's consolidated subsidiaries. There were no cash contributions by minority partners for the three months and six months ended July 1, 2022, or June 25, 2021.

In July 2021, the Company amended its Amended and Restated Certificate of Incorporation which, among other things, effected a 150-for-1 stock split of its shares of common stock, increased the par value of its common stock from $0.001 to $0.01 per share, increased the authorized number of shares of its common stock to 500,000 and authorized 50,000 shares of preferred stock. There was no preferred stock outstanding as of July 1, 2022, and December 31, 2021. All references to share and per share amounts in the Company's condensed consolidated financial statements have been retrospectively revised to reflect the stock split, the increase in par value and the increase in authorized shares.

Share Repurchase Program — On May 12, 2022, the Company announced that its board of directors authorized a $25,000 share repurchase program. Under the share repurchase program, Snap One may purchase shares of common stock on a discretionary basis from time to time through open market repurchases, privately negotiated transactions or other means, including through Rule 10b5-1 trading plans or through the use of other techniques such as accelerated share repurchases. The timing and number of shares repurchased will depend on a variety of factors, including stock price, trading volume, and general business and market conditions. The repurchase program expires at the end of 2023, does not obligate the Company to acquire a specified number of shares and may be modified, suspended or discontinued at any time at the board of directors' discretion.

Share repurchase activity consists of the following:

	Three and Six Months Ended	
	July 1, 2022	
Number of shares repurchased		94
Total cost	$	1,048
Average per share cost including commissions	$	0.01

We have elected to retire shares repurchased to date. Shares retired become part of the pool of authorized but unissued shares. The purchase price of the retired shares in excess of par value, including transaction costs, are recorded as a decrease to additional paid-in capital. As of July 1, 2022, $130 of share repurchases were included in accrued liabilities in our condensed consolidated balance sheets, as these repurchase transactions had not yet settled.

(in thousands, except per share amounts)

18. Loss Per Share

Basic loss per share represents net loss divided by the weighted-average shares outstanding. Diluted loss per share is the same as basic income or loss per share, as the Company had no potentially dilutive securities during the three months and six months ended June 25, 2021, and was in a loss position during the three months ended July 1, 2022. The following table presents the calculations of basic and diluted loss per share for the three months and six months ended July 1, 2022, and June 25, 2021:

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Net loss attributable to Company	$ (1,327)	$ (1,044)	$ (3,563)	$ (7,058)
Weighted-average shares outstanding - basic and diluted	74,588	59,217	74,526	59,217
Loss per share - basic and diluted	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.12)

The Company's restricted stock awards, stock options, restricted stock units and performance stock units were excluded from the computation of diluted net loss per share because their effect would have been anti-dilutive. Awards with performance and market-based vesting conditions are excluded from the calculation of dilutive potential common shares until the conditions have been satisfied. The following potentially dilutive shares were excluded from the computation of diluted net income (loss) per share attributable to common stockholders:

	Three Months Ended July 1, 2022	Six Months Ended July 1, 2022
Restricted stock awards	1,281	1,347
Time-based options	4,334	4,352
Market-based options	1,155	1,155
Restricted stock units	1,193	994
Performance stock units	367	276
Other equity-based compensation	69	63
Total	8,399	8,187

19. Related Parties

The Company's controlling shareholder, Hellman & Friedman, LLC ("H&F"), owns an insurance brokerage vendor used by the Company. For the three months and six months ended July 1, 2022 , the Company incurred $468 and $936 of expenses, respectively. For the three months and six months ended June 25, 2021, the Company incurred no expenses related to this vendor. Additionally, H&F has an ownership interest in a human capital management, payroll, HR service and workforce management vendor used by the Company. For the three months ended July 1, 2022 and June 25, 2021, the Company incurred $53 and $99 of expenses, respectively. For the six months ended July 1, 2022 and June 25, 2021, the Company incurred $166 and $285 of expenses, respectively. These expenses are included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. Amounts owed by the Company in connection with the expenses described above were not material as of July 1, 2022 and June 25, 2021, respectively.

20. Subsequent Events

On August 8, 2022, the Company acquired Clare Controls, LLC, a provider of home automation and security products for whom Snap One has been the distributor since 2019.The Clare acquisition will enable Snap One to convert Clare's product suite into higher-margin proprietary products, and drive growth with professional integrators in adjacent markets.

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 condensed consolidated financial statements and the related notes thereto included elsewhere in this quarterly report on Form 10-Q, as well as our Annual Report. The statements in this discussion contain forward-looking statements and are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management and involve risks and uncertainties. Actual results could differ materially from those discussed in or implied by forward-looking statements due to various factors, including those discussed below and elsewhere in this Form 10-Q and our Annual Report, particularly in the "Risk Factors" but also in other sections of this Form 10-Q and our Annual Report.

We operate on a 52-week or 53-week fiscal year ending on the last Friday of December each year. Our fiscal year is divided into four quarters of 13 weeks, each beginning on a Saturday and containing one 5-week period followed by two 4-week periods. When a 53-week fiscal year occurs, we report the additional week in the fourth fiscal quarter. References to fiscal year 2021 are to our 53-week fiscal year ended December 31, 2021. The fiscal quarters ended July 1, 2022, and June 25, 2021 were both 13-week periods.

Overview

Snap One powers smart living by enabling professional integrators to deliver seamless experiences in the connected homes and small businesses where people live, work and play. Our end-to-end product ecosystem delivered through our powerful distribution network and further bolstered by our technology-enabled workflow solutions delivers a compelling value proposition to our loyal and growing network of professional do-it-for-me ("DIFM") integrator customers. We distribute and provide integrators with a leading, comprehensive, proprietary and third-party suite of connected, infrastructure, entertainment, and software solutions so the entire smart living experience is exceptional for the end consumer. Our product and service offerings encompass all of the elements required by integrators to build integrated smart living systems that are easy to install and simple to manage, serving the needs of both integrators and end consumers. Our differentiated technology and software-enabled workflow tools have been designed to support the integrator throughout the project lifecycle, enhancing their operations and helping them to profitably grow their businesses.

We are vertically integrated with the majority of our Net Sales and Contribution Margin coming from our proprietary-branded, internally developed products that are only available to integrators directly from Snap One. These proprietary products are manufactured on an asset-light basis through our network of contract manufacturing and joint development suppliers located primarily in Asia. In addition, we offer a curated set of leading third-party products to enhance the one-stop shop experience for integrators, driving customer stickiness and sales growth.

Recent Developments

On January 20, 2022, we announced the acquisition of Staub Electronics, LTD. ("Staub"), a long-time Canadian distribution partner. The acquisition brings together two long-time business partners to provide more product choice, faster fulfillment, and superior support for professional integrators across Canada. The acquisition adds two Canadian locations to our distribution footprint. See Note 3 of the Notes to the Condensed Consolidated Financial Statements for more information regarding the acquisition.

As of July 1, 2022, we had $47.0 million outstanding under the New Revolving Credit Facility, which we used to fund the Staub acquisition as well as for general corporate expenses.

On August 8, 2022, the Company acquired Clare Controls, LLC ("Clare"), a provider of home automation and security products for whom Snap One has been the distributor since 2019. The Clare acquisition will enable Snap One to convert Clare's product suite into higher-margin proprietary products, and drive growth with professional integrators in adjacent markets.

Key Factors Affecting Our Performance

Our historical financial performance has been primarily driven by the following factors, which we also expect to be the primary drivers of our financial performance in the future.

Wallet Share Growth Drives Increased Average Spend per Integrator. Increasing wallet share with integrators depends in part on our ability to continue expanding our omni-channel coverage, extending our product suite, bolstering our support services, and creating deeper integration across our products to make it compelling for integrators to use Snap One as their one-stop shop. Average wallet share with our integrators varies across DIFM markets, with particular strength in home technology and demonstrated success in commercial and security.

New DIFM Integrator Additions in Home Technology, Security, Commercial and Internationally. We are a market leader in our core domestic home technology market, and we believe that our value proposition appeals to integrators in attractive adjacent markets. We are utilizing our proven strategy of acquiring integrators in the home technology market to attract integrators in security and commercial markets, where we are less penetrated but have displayed a track record of growth. We believe that strategic investments in expanding our product portfolio and targeted sales, marketing and new integrator onboarding initiatives will allow us to grow our network of integrators across these markets. We also believe there is a meaningful opportunity to expand our existing market share in non-U.S. markets. We plan to grow in these markets by investing in sales resources, broadening our available product portfolio, and strengthening our direct-to-integrator sales approach.

Investments in Our Integrated Platform. Our end-to-end product and software ecosystem and technology-enabled workflow solutions create an integrated platform of leading offerings, which we believe drive significant value for our integrators and personalized, immersive experiences for end consumers.

Omni-Channel Strategy Expansion. Our business model is built around an e-commerce centric, omni-channel go-to-market strategy. We provide a comprehensive e-commerce portal, which allows integrators to easily research products, design projects, receive training and certifications, order products, and solicit ongoing support. Our e-commerce portal is complemented by a growing network of 32 domestic local branches, two Canadian local branches, and seven distribution centers as of July 1, 2022. The local branch presence is an important part of our strategy as it allows us to better serve integrators locally by providing same-day product availability when necessary, creating a site for relationship building with our support team and for training and product demonstration sessions. We believe integrators value the relationships and support we can deliver at the local level, and this further increases their loyalty to our business across channels.

Strategic Acquisitions. In addition to our organic growth, we continue to grow our business through strategic acquisitions such as our acquisitions of ANLA, LLC (“Access Networks”), Staub and Clare to better serve existing and new integrators, broaden our product categories, and extend the geographic reach of our omni-channel capabilities. We will continue to pursue disciplined, accretive acquisitions that enhance our products, software and workflow solutions and expand into adjacent markets that allow us to serve our integrator base.

Impact of the COVID-19 Pandemic

Throughout the pandemic, we have supported professional integrators with their challenges, including staff considerations and the dynamic of practicing social distancing with their customers, to allow them to continue to provide their customers the infrastructure and connectivity needed to create personalized experiences for individuals and families who are spending more time at home.

Following initial demand declines for our products and services in March and April 2020, sales recovered in 2021 as professional integrators’ services became increasingly important for homeowners working and seeking entertainment from home. This resulted in accelerated growth in our business and reinforced that we provide a mission-critical function to our integrators. More recently, COVID-19 has affected our supply chain, including component sourcing and shipping and logistics challenges resulting in cost inflation, consistent with its effect across many industries. When combined with the demand for our products, these supply chain impacts have resulted in delayed product availability in some cases. We expect these impacts, including potential delayed product availability, to continue for as long as the global supply chain is experiencing these challenges. We continue to invest in supply chain initiatives to meet integrator demand and manage cost inflation, and while the situation caused by COVID-19 is dynamic, we have considered COVID-19 and the lingering effects of its impact when developing our estimates and assumptions. Actual results and outcomes may differ from our estimates and assumptions. For additional information of risks related to COVID-19, refer to “Risk Factors” in our Annual Report.

Key Metrics and Reconciliation of Non-GAAP Financial Data

In addition to the measures presented in our consolidated financial statements, we present the following key business metrics on a fiscal year basis to help us monitor the performance of our business, identify trends affecting our business and assist us in making strategic decisions:

Domestic Integrator Net Sales, Transacting Domestic Integrators, Spend per Transacting Domestic Integrator

We define Domestic Integrator Net Sales as sales in the fiscal year period from professional do-it-for-me integrator customers who transact with Snap One through a traditional integrator channel and excludes the impact of recently acquired businesses. Domestic Integrator Net Sales is presented as a component of our revenue disaggregation.

We define Transacting Domestic Integrators as a unique integrator business that transacted with Snap One domestically in a fiscal year period.

We calculate Spend per Transacting Domestic Integrator as Domestic Integrator Net Sales divided by Transacting Domestic Integrators.

We believe these metrics are useful measures for evaluating our performance on a fiscal year basis.

The following table presents a reconciliation of Domestic Integrator Net Sales, Transacting Domestic Integrators, and Spend per Transacting Domestic Integrator for the periods presented:

	Fiscal years ended	
	December 31, 2021	December 25, 2020
	($ in thousands)	
Domestic integrator[(a)] net sales	$ 829,845	$ 684,980
Divided by:		
Transacting domestic integrators (in thousands)	20.0	17.9
Spend per domestic integrator	$ 41.5	$ 38.3
Year over year growth %		
Transacting domestic integrators	11.7 %	
Spend per domestic integrator	8.4 %	

(a) Domestic integrator, or as it is defined in Note 4 of the Notes to the Condensed Consolidated Financial Statements, United States integrator, is defined as professional "do-it-for-me" integrator customers who transact with Snap One through a traditional integrator channel and excludes the impact of recently acquired businesses domestically.

Adjusted EBITDA and Adjusted Net Income

We define Adjusted EBITDA as net loss, plus interest expense, net, income tax benefit, depreciation and amortization, further adjusted to exclude equity-based compensation, acquisition-related and integration-related costs, IPO costs and certain other non-recurring, non-core, infrequent or unusual charges as described below.

We define Adjusted Net Income as net loss, plus amortization, further adjusted to exclude equity-based compensation, acquisition-related and integration-related costs, IPO costs and certain non-recurring, non-core, infrequent or unusual charges, including the estimated tax impacts of these adjustments.

Adjusted EBITDA and Adjusted Net Income are key measures used by management to understand and evaluate our financial performance, trends and generate future operating plans. Management uses these key measures to make strategic decisions regarding the allocation of capital and analyze investments in initiatives that are focused on cultivating new markets for our products and services. We believe Adjusted EBITDA and Adjusted Net Income are useful measurements for analysts, investors and other interested parties to evaluate companies in our markets as they help identify underlying trends that could otherwise be masked by certain expenses that we do not consider indicative of our ongoing performance.

Adjusted EBITDA and Adjusted Net Income have limitations as analytical tools. These measures are not calculated in accordance with GAAP and should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, Adjusted EBITDA and Adjusted Net Income may not be comparable to similarly titled metrics of other companies due to differences among the methods of calculation.

The following table presents a reconciliation of net loss to Adjusted EBITDA for the periods presented:

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
	(in thousands)			
Net loss	$ (1,344)	$ (1,056)	$ (3,600)	$ (7,092)
Interest expense	7,720	9,543	14,443	19,078
Income tax (benefit) expense	(163)	119	(524)	(644)
Depreciation and amortization	14,966	14,198	29,855	27,910
Other expense (income), net	(63)	(296)	(483)	(509)
Equity-based compensation	6,768	1,178	12,367	2,238
Provision for credit losses on notes receivable[a]	5,872	—	5,872	—
Fair value adjustment to contingent value rights[b]	(3,275)	1,530	(6,075)	2,840
Deferred acquisition payments[c]	327	1,428	1,030	3,580
Compensation expense for payouts in lieu of TRA participation[d]	279	—	558	—
Acquisition and integration related costs[e]	64	222	278	236
Deferred revenue purchase accounting adjustment[f]	53	141	150	289
Initial public offering costs[g]	—	1,210	—	2,921
Other professional services costs[h]	376	—	1,213	—
Other[i]	100	1,095	187	1,807
Adjusted EBITDA	$ 31,680	$ 29,312	$ 55,271	$ 52,654

The following table presents a reconciliation of net loss to Adjusted Net Income for the periods presented:

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
	(in thousands)			
Net loss	$ (1,344)	$ (1,056)	$ (3,600)	$ (7,092)
Amortization	12,597	12,079	25,258	23,967
Equity-based compensation	6,768	1,178	12,367	2,238
Foreign currency loss (gains)	166	(143)	(13)	(191)
Provision for credit losses on notes receivables[(a)]	5,872	—	5,872	—
Fair value adjustment to contingent value rights[(b)]	(3,275)	1,530	(6,075)	2,840
Deferred acquisition payments[(c)]	327	1,428	1,030	3,580
Compensation expense for payouts in lieu of TRA participation[(d)]	279	—	558	—
Acquisition and integration related costs[(e)]	64	222	278	236
Deferred revenue purchase accounting adjustment[(f)]	53	141	150	289
Initial public offering costs[(g)]	—	1,210	—	2,921
Other professional services costs[(h)]	376	—	1,213	—
Other[(i)]	33	1,067	52	1,757
Income tax effect of adjustments[(j)]	(5,416)	(3,790)	(9,873)	(7,645)
Adjusted Net Income	$ 16,500	$ 13,866	$ 27,217	$ 22,900

(a) Represents provision for credit losses on notes receivable related to the Company's unsecured loan to Clare.

(b) Represents noncash gains and losses recorded from fair value adjustments related to contingent value right (“CVR”) liabilities. Fair value adjustments related to CVR liabilities represent potential obligations to the prior sellers in conjunction with the acquisition of the Company by investment funds managed by Hellman & Friedman in August 2017 and are based on estimates of expected cash payments to the prior sellers based on specified targets for the return on the original capital investment.

(c) Represents expenses incurred related to deferred payments to employees associated with our Control4 acquisition and other historical acquisitions. The deferred payments are cash retention awards for key personnel from the acquired companies and are expected to be paid to employees through 2023. Management does not believe such costs are indicative of our ongoing operations as they are one-time awards specific to acquisitions and are incremental to our typical compensation costs incurred and we do not expect such costs to be reflective of future increases in base compensation expense.

(d) Represents non-recurring expense related to payments to certain pre-IPO owners in lieu of their participation in the TRA. Management does not believe such costs are indicative of our ongoing operations as they are one-time awards specific to the establishment of the TRA.

(e) Represents costs directly associated with acquisitions and acquisition-related integration activities. These costs also include certain restructuring costs (e.g., severance) and other third-party transaction advisory fees associated with the acquisitions.

(f) Represents an adjustment related to the fair value of deferred revenue related to the Control4 acquisition.

(g) Represents expenses related to professional fees in connection with preparation for our IPO.

(h) Represents professional service fees associated with the preparation for Sarbanes-Oxley compliance, the implementation of new accounting standards and accounting for non-recurring transactions.

(i) Represents non-recurring expenses related to consulting, restructuring, and other expenses which management believes are not representative of our operating performance.

(j) Represents the tax impacts with respect to each adjustment noted above after taking into account the impact of permanent differences using the statutory tax rate related to the applicable federal and foreign jurisdictions and the blended state tax rate.

Contribution Margin

We define Contribution Margin for a particular period as net sales, less cost of sales, exclusive of depreciation and amortization, divided by net sales. Management uses this key measure to understand and evaluate our financial performance, trends and generate future operating plans, make strategic decisions regarding the allocation of capital, and analyze investments in initiatives that are focused on cultivating new markets for our products and services. We believe Contribution Margin is a useful measurement for analysts, investors, and other interested parties to evaluate companies in our markets as they help identify underlying trends that could otherwise be masked by certain expenses that we do not consider indicative of our ongoing performance.

Contribution Margin has limitations as an analytical tool. This measure is not calculated in accordance with GAAP and should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, Contribution Margin may not be comparable to similarly titled metrics of other companies due to differences among the methods of calculation.

The following table presents the calculation of Contribution Margin:

	Three Months Ended		Six Months Ended	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
	(in thousands)			
Net sales	$ 296,905	$ 253,305	$ 574,339	$ 473,773
Cost of sales, exclusive of depreciation and amortization[(a)]	180,395	152,140	352,727	281,016
Net sales less cost of sales, exclusive of depreciation and amortization	$ 116,510	$ 101,165	$ 221,612	$ 192,757
Contribution Margin	39.2 %	39.9 %	38.6 %	40.7 %

(a) Cost of sales for the three months ended July 1, 2022 and June 25, 2021, excludes depreciation and amortization of $14,966 and $14,198, respectively. Cost of sales for the six months ended July 1, 2022 and June 25, 2021, excludes depreciation and amortization of $29,855 and $27,910, respectively.

Free Cash Flow

We define Free Cash Flow as net cash (used in) provided by operating activities less capital expenditures (which consist of purchases of property and equipment as well as purchases of information technology, software development and leasehold improvements). We believe it is useful to exclude capital expenditures from our Free Cash Flow in order to measure the amount of cash we generate because the timing of such capital investments made may not directly correlate to the underlying financial performance of our business operations. Free Cash Flow is not a measure calculated in accordance with GAAP and should not be considered in isolation from, or as a substitute for financial information prepared in accordance with GAAP. In addition, Free Cash Flow may not be comparable to similarly titled metrics of other companies due to differences among methods of calculation. Free Cash Flow provides useful information to investors and others in understanding and evaluating our ability to generate additional cash from our business in the same manner as our management and board of directors. Free Cash Flow may be affected in the near to medium term by the timing of capital investments (such as purchases of information technology and other equipment and leasehold improvements), fluctuations in our growth and the effect of such fluctuations on working capital and changes in our cash conversion cycle due to increases or decreases of vendor payment terms as well as inventory turnover.

The following table presents a reconciliation of net cash used in operating activities to Free Cash Flow for the periods presented:

	Six Months Ended	
	July 1, 2022	June 25, 2021
	(in thousands)	
Net cash used in operating activities	$ (19,553)	$ (4,615)
Purchases of property and equipment	(6,414)	(4,413)
Free Cash Flow	$ (25,967)	$ (9,028)

Basis of Presentation and Key Components of Results of Operations

Net Sales

We generate net sales by selling hardware products to our integrators both with and without embedded software, which are then resold to end consumers, typically in the installation of an audio/video, IT, smart-home, or surveillance-related package. We act both as a principal in selling proprietary products, and as an agent in selling certain third-party products through strategic partnerships with outside suppliers. In addition, we generate a small but growing percentage of our revenue through recurring revenue from subscription services associated with product sales including hosting services, technical support, and access to unspecified software updates and upgrades. Revenue is recognized when the integrator obtains control of the product, which occurs upon shipment, in an amount that reflects the consideration expected to be received in exchange for those products net of estimated discounts, rebates, returns, allowances and any taxes collected and remitted to government authorities. Revenue allocated to subscription services is recognized over time as services are provided. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates and Policies — Revenue Recognition" in the Annual Report.

Cost of Sales, Exclusive of Depreciation and Amortization

Cost of sales, exclusive of depreciation and amortization, includes expenses related to production of proprietary finished goods, including raw materials and inbound freight, purchase costs for third-party products produced by strategic partners and sold by Snap One, rebates, inventory reserve adjustments and employee costs related to assembly services. The components of our cost of sales, exclusive of depreciation and amortization may not be comparable to our peers. The changes in our cost of sales, exclusive of depreciation and amortization generally correspond with the changes in net sales and may be impacted by any significant fluctuations in the components of our cost of sales, exclusive of depreciation and amortization.

Selling, General and Administrative Expenses

Selling, general and administrative costs include payroll and related costs, occupancy costs, costs related to warehousing, distribution, outbound shipping to integrators, credit card processing fees, warranty, purchasing, advertising, research and development, non-income-based taxes, equity-based compensation, acquisition-related expenses, compensation expense for payouts in lieu of TRA participation, provision for credit losses and other corporate overhead costs. We expect that our selling, general and administrative expenses will increase at a growth rate below net sales growth when adjusted for one-time expenses, in future periods as we continue to grow, and due to additional legal, accounting, insurance and other expenses that we are incurring as a public company, including compliance with the Sarbanes-Oxley Act.

Depreciation and Amortization

Depreciation expense is related to investments in property and equipment. Amortization expense consists of amortization of intangible assets originating from our acquisitions. Acquired intangible assets include developed technology, customer relationships, trademarks and trade names. We expect in the future that depreciation and amortization may increase based on acquisition activity, development of our platform and capitalized expenditures.

Interest Expense

Interest expense includes interest expense on debt, including term loans and revolving credit facilities (each of which is described in more detail below under "— Liquidity and Capital Resources — Debt Obligations"), as well as the non-cash amortization of deferred financing costs.

Other (Expense) Income, Net

Other (expense) income, net includes interest income, foreign currency remeasurement, TRA liability adjustments and transaction gains and losses.

Income Tax Expense (Benefit)

We are subject to U.S. federal, state and local income taxes as well as foreign income taxes based on enacted tax rates in each jurisdiction, as adjusted for allowable credits and deductions. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes will be due.

Results of Operations

The following table sets forth our results of operations and results of operations data expressed as a percentage of net sales for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended				Six Months Ended			
	July 1, 2022	% of Net sales	June 25, 2021	% of Net sales	July 1, 2022	% of Net sales	June 25, 2021	% of Net sales
	($ in thousands)							
Net Sales	$ 296,905	100.0 %	$ 253,305	100.0 %	$ 574,339	100.0 %	$ 473,773	100.0 %
Costs and expenses:								
Cost of sales, exclusive of depreciation and amortization	180,395	60.8 %	152,140	60.1 %	352,727	61.4 %	281,016	59.3 %
Selling, general and administrative expenses	95,394	32.1 %	78,657	31.1 %	181,921	31.7 %	154,014	32.5 %
Depreciation and amortization	14,966	5.0 %	14,198	5.6 %	29,855	5.2 %	27,910	5.9 %
Total costs and expenses	290,755	97.9 %	244,995	96.7 %	564,503	98.3 %	462,940	97.7 %
Income from operations	6,150	2.1 %	8,310	3.3 %	9,836	1.7 %	10,833	2.3 %
Other expenses (income):								
Interest expense	7,720	2.6 %	9,543	3.8 %	14,443	2.5 %	19,078	4.0 %
Other expense (income), net	(63)	— %	(296)	(0.1)%	(483)	(0.1)%	(509)	(0.1)%
Total other expenses	7,657	2.6 %	9,247	3.7 %	13,960	2.4 %	18,569	3.9 %
Loss before income taxes	(1,507)	(0.5)%	(937)	(0.4)%	(4,124)	(0.7)%	(7,736)	(1.6)%
Income tax (benefit) expense	(163)	(0.1)%	119	— %	(524)	(0.1)%	(644)	(0.1)%
Net loss	(1,344)	(0.5)%	(1,056)	(0.4)%	(3,600)	(0.6)%	(7,092)	(1.5)%
Net loss attributable to noncontrolling interest	(17)	— %	(12)	— %	(37)	— %	(34)	— %
Net loss attributable to Company	$ (1,327)	(0.4)%	$ (1,044)	(0.4)%	$ (3,563)	(0.6)%	$ (7,058)	(1.5)%

Three Months and Six Months Ended July 1, 2022, Compared to the Three Months and Six Months Ended June 25, 2021

Net Sales

	Three Months Ended				Six Months Ended			
	July 1, 2022	June 25, 2021	$ Change	% Change	July 1, 2022	June 25, 2021	$ Change	% Change
	($ in thousands)							
Net Sales	$ 296,905	$ 253,305	$ 43,600	17.2 %	$ 574,339	$ 473,773	$ 100,566	21.2 %

Net sales increased by $43.6 million, or 17.2%, in the three months ended July 1, 2022, compared to the three months ended June 25, 2021. Approximately 13.4% of net sales growth was driven by organic growth, including the continued ramp of local branches opened in the past year, and the cumulative impact of proprietary product price adjustments taken in the past year, offset by a modest foreign currency headwind. Approximately 3.8% of net sales growth was attributed to the full quarter benefit of the recent acquisitions of Access Networks and Staub.

Net sales increased by $100.6 million, or 21.2%, in the six months ended July 1, 2022, compared to the six months ended June 25, 2021. Approximately 17.0% of net sales growth was driven by organic growth, including the continued ramp of local branches opened in the past year, and the cumulative impact of proprietary product price adjustments taken in the past year, offset by supply chain and foreign currency headwinds. Approximately 4.2% of net sales growth was attributed to the year-to-date benefit of recent acquisitions of Access Networks and Staub.

Cost of Sales, Exclusive of Depreciation and Amortization

	Three Months Ended				Six Months Ended			
	July 1, 2022	June 25, 2021	$ Change	% Change	July 1, 2022	June 25, 2021	$ Change	% Change
	($ in thousands)							
Cost of sales, exclusive of depreciation and amortization	$ 180,395	$ 152,140	$ 28,255	18.6 %	$ 352,727	$ 281,016	$ 71,711	25.5 %
As a percentage of net sales	60.8 %	60.1 %			61.4 %	59.3 %		

Cost of sales, exclusive of depreciation and amortization, increased $28.3 million, or 18.6%, in the three months ended July 1, 2022, compared to the three months ended June 25, 2021, primarily driven by higher sales volumes. As a percentage of net sales, cost of sales, exclusive of depreciation and amortization, increased to 60.8% in the current period from 60.1% in the prior period. The increase in cost of sales, exclusive of depreciation and amortization, as a percentage of net sales was primarily due to growth in third-party product sales outpacing growth of proprietary product sales as we further execute our omni-channel strategy by opening local branches, which typically sell more third-party product than proprietary product. The accelerated growth in third-party product sales resulted in a third-party product mix of 29.9% compared to 28.8% in the comparable year ago period. Additionally, supplier costs and inbound freight costs increased due to ongoing supply chain pressures. This increase in cost of sales, exclusive of depreciation and amortization, as a percentage of net sales resulted in a lower Contribution Margin of 39.2% for the three months ended July 1, 2022, compared to 39.9% for the three months ended June 25, 2021.

Cost of sales, exclusive of depreciation and amortization, increased $71.7 million, or 25.5%, in the six months ended July 1, 2022, compared to the six months ended June 25, 2021, primarily driven by higher sales volumes. As a percentage of net sales, cost of sales, exclusive of depreciation and amortization, increased to 61.4% in the current period from 59.3% in the prior period. The increase in cost of sales, exclusive of depreciation and amortization, as a percentage of net sales was primarily due to growth in third-party product sales outpacing growth of proprietary product sales as we further execute our omni-channel strategy by opening local branches, which typically sell more third-party product than proprietary product. The accelerated growth in third-party product sales resulted in a third-party product mix of 31.1% compared to 29.8% in the comparable year ago period. Additionally, supplier costs and inbound freight costs increased due to ongoing supply chain pressures. This increase in cost of sales, exclusive of depreciation and amortization, as a percentage of net sales resulted in a lower Contribution Margin of 38.6% for the six months ended July 1, 2022, compared to 40.7% for the six months ended June 25, 2021.

Selling, General and Administrative ("SG&A") Expenses

	Three Months Ended				Six Months Ended			
	July 1, 2022	June 25, 2021	$ Change	% Change	July 1, 2022	June 25, 2021	$ Change	% Change
	($ in thousands)							
Selling, general and administrative expenses	$ 95,394	$ 78,657	$ 16,737	21.3 %	$ 181,921	$ 154,014	$ 27,907	18.1 %
As a percentage of net sales	32.1 %	31.1 %			31.7 %	32.5 %		

Selling, general and administrative expenses increased $16.7 million, or 21.3%, in the three months ended July 1, 2022 compared to the three months ended June 25, 2021. The increase in selling, general, administrative expenses was due in part to a $5.9 million provision for credit losses on notes receivable. The provision was recorded in consideration of internal and external sources, including the Company's acquisition of Clare subsequent to quarter end, where certain credit obligations owed by Clare to third-parties were forgiven or settled at reduced rates. The remaining increase in selling, general and administrative expenses is primarily related to an increase in equity-based compensation expense of $5.6 million, increased costs associated with becoming and operating as a public company, ongoing investments to support strategic growth initiatives, wage inflation and absorbing the costs associated with recently acquired businesses. The increase in selling, general and administrative expenses was offset by a $4.8 million decrease related to the fair value adjustment to contingent value rights.

Selling, general and administrative expenses increased $27.9 million, or 18.1%, in the six months ended July 1, 2022 compared to the six months ended June 25, 2021. The increase in selling, general, administrative expenses was due in part to the previously noted $5.9 million provision for credit losses on notes receivable. The remaining increase in selling, general and administrative expenses is primarily related to an increase in equity-based compensation expense of $10.1 million, increased costs associated with becoming and operating as a public company, ongoing investments to support strategic growth initiatives, wage inflation and absorbing the costs associated with recently acquired businesses. The increase in selling, general and administrative expenses was offset by a $8.9 million decrease related to the fair value adjustment to contingent value rights.

Depreciation and Amortization

	Three Months Ended				Six Months Ended			
	July 1, 2022	June 25, 2021	$ Change	% Change	July 1, 2022	June 25, 2021	$ Change	% Change
	($ in thousands)							
Depreciation and amortization	$ 14,966	$ 14,198	$ 768	5.4 %	$ 29,855	$ 27,910	$ 1,945	7.0 %
As a percentage of net sales	5.0 %	5.6 %			5.2 %	5.9 %		

Depreciation and amortization expenses increased by $0.8 million, or 5.4%, in the three months ended July 1, 2022 compared to the three months ended June 25, 2021. Amortization expense associated with intangible assets acquired increased between periods due to the acquisitions of Access Networks and Staub. Depreciation expense increased primarily due to the acquisitions of Access Networks and Staub, as well as the opening of new local branches between periods.

Depreciation and amortization expenses increased by $1.9 million, or 7.0%, in the six months ended July 1, 2022 compared to the six months ended June 25, 2021. Amortization expense associated with intangible assets acquired increased between periods due to the acquisitions of Access Networks and Staub. Depreciation expense increased primarily due to the acquisitions of Access Networks and Staub, as well as the opening of new local branches between periods.

Interest Expense

	Three Months Ended				Six Months Ended			
	July 1, 2022	June 25, 2021	$ Change	% Change	July 1, 2022	June 25, 2021	$ Change	% Change
				($ in thousands)				
Interest expense	$ 7,720	$ 9,543	$ (1,823)	(19.1)%	$ 14,443	$ 19,078	$ (4,635)	(24.3)%
As a percentage of net sales	2.6 %	3.8 %			2.5 %	4.0 %		

Interest expense decreased by $1.8 million, or 19.1%, in the three months ended July 1, 2022 compared to the three months ended June 25, 2021. The decrease was primarily driven by a lower average outstanding balance on our long-term debt in the three months ended July 1, 2022 as compared to the three months ended June 25, 2021.

Interest expense decreased by $4.6 million, or 24.3%, in the six months ended July 1, 2022 compared to the six months ended June 25, 2021. The decrease was primarily driven by a lower average outstanding balance on our long-term debt in the six months ended July 1, 2022 as compared to the six months ended June 25, 2021.

Other Expense (Income), Net

	Three Months Ended				Six Months Ended			
	July 1, 2022	June 25, 2021	$ Change	% Change	July 1, 2022	June 25, 2021	$ Change	% Change
				($ in thousands)				
Other expense (income)	$ (63)	$ (296)	$ 233	(78.7)%	$ (483)	$ (509)	$ 26	(5.1)%
As a percentage of net sales	— %	(0.1)%			(0.1)%	(0.1)%		

Other income decreased by $0.2 million, or 78.7%, in the three months ended July 1, 2022, compared to the three months ended June 25, 2021 due to less favorable foreign currency movements. Other income for the six months ended July 1, 2022, was consistent with unfavorable foreign currency movements, primarily related to the U.S. dollar.

Income Tax (Benefit) Expense

	Three Months Ended				Six Months Ended			
	July 1, 2022	June 25, 2021	$ Change	% Change	July 1, 2022	June 25, 2021	$ Change	% Change
				($ in thousands)				
Income tax (benefit) expense	$ (163)	$ 119	$ (282)	(237.0)%	$ (524)	$ (644)	$ 120	(18.6)%
As a percentage of net sales	(0.1)%	— %			(0.1)%	(0.1)%		

Income tax benefit increased by $0.3 million, or 237.0%, to a benefit, in the three months ended July 1, 2022, compared to an expense in the three months ended June 25, 2021. The effective tax rate for the three months ended July 1, 2022, was a benefit of 10.8% compared to an expense of 12.7% for the three months ended June 25, 2021. The change in the effective tax rate for the three months ended July 1, 2022, and the difference from the U.S. federal statutory rate of 21%, was primarily the result of allocation of income between jurisdictions, low pretax book income as compared to tax expense and a change in the state deferred rate.

Income tax benefit decreased by $0.1 million, or (18.6)%, in the six months ended July 1, 2022 compared to the six months ended June 25, 2021. The effective tax rate for the six months ended July 1, 2022, was a benefit of 12.7% compared to a benefit of 8.3% for the six months ended June 25, 2021. The change in the effective tax rate for the six months ended July 1, 2022, and the difference from the U.S. federal statutory rate of 21%, was primarily the result of allocation of income between jurisdictions, low pretax book income as compared to tax expense and a change in the state deferred rate.

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity are net cash provided by operating activities and availability under our Credit Agreement. We assess our liquidity in terms of our ability to generate adequate amounts of cash to meet current and future needs. Our expected primary uses on a short-term and long-term basis are for working capital requirements, capital expenditures, geographic or service offering expansion, acquisitions, debt service requirements and other general corporate purposes. Our primary working capital requirements are for the purchase of inventory, payroll, rent, other facility costs, distribution costs and general and administrative costs. Our working capital requirements fluctuate during the year, driven primarily by seasonality and the timing of inventory purchases. Our capital expenditures are primarily related to infrastructure-related investments, including investments related to upgrading and maintaining our information technology systems, ongoing location improvements (joint design and manufacturing tooling), expenditures related to our distributions centers, and new local branch openings.

We have historically funded our operations and acquisitions primarily through internally generated cash on hand and our Credit Facilities, except for the acquisition of Control4 which was partially funded by a capital contribution from the Former Parent Entity. Most recently, we completed our IPO of 13.9 million shares of our common stock, and on August 18, 2021, we completed the sale of 1.2 million shares of additional common stock to the underwriters pursuant to their option to purchase additional shares, at an offering price of $18.00 per share. We raised net proceeds of $249.2 million through the IPO, after deducting underwriting discounts and other offering costs of $21.2 million.

Working Capital, Excluding Deferred Revenue

The following table summarizes our cash, cash equivalents, accounts receivable and working capital, which we define as current assets minus current liabilities excluding deferred revenue, for the periods indicated:

	As of	
	July 1, 2022	December 31, 2021
	(in thousands)	
Cash and cash equivalents	$ 31,318	$ 40,577
Accounts receivable, net	$ 59,172	$ 52,620
Working capital, excluding deferred revenue	$ 236,488	$ 208,433

Our cash and cash equivalents as of July 1, 2022, are available for working capital purposes. We do not enter into investments for trading purposes, and our investment policy is to invest any excess cash in short term, highly liquid investments that reduce the risk of principal loss; therefore, our cash and cash equivalents are held in demand deposit accounts that generate very low returns.

We believe that our existing cash and cash equivalents, together with expected cash flow from operating activities, will be sufficient to fund our operations and capital expenditure requirements for the next 12 months. Beyond the next 12 months, our primary capital requirements primarily consist of required principal and interest payments on long-term debt, lease payments under non-cancelable lease commitments and TRA payments as further described in Notes 7, 14 and 16 of the Notes to the Condensed Consolidated Financial Statements. If cash provided by operating activities and borrowings under our Credit Agreement are not sufficient or available to meet our short and long-term capital requirements, then we may consider additional equity or debt financing in the future. There can be no assurance debt or equity financing will be available to us if we need it or, if available, the terms will be satisfactory to us. Our sources of liquidity could be affected by factors described under “Risk Factors” in our Annual Report.

Debt Obligations

On December 8, 2021, we entered into a credit agreement (the “Credit Agreement”) with various financial institutions consisting of a $465.0 million aggregate principal amount of senior secured term notes (the “New Term Loan”) maturing in seven years and a $100.0 million senior secured revolving credit facility (the “New Revolving Credit Facility”) (which includes borrowing capacity available for letters of credit) maturing in five years.

Borrowings under the New Term Loan will bear interest at a rate per annum equal to, at the Company's option, either (1) an applicable margin plus a base rate determined by reference to the highest of (a) 0.50% per annum plus the federal funds effective rate, (b) the prime rate and (c) the eurocurrency rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%; provided that such rate is not lower than a floor of 1.50% or (2) an applicable margin plus a eurocurrency rate determined by reference to the cost of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs; provided that such rate is not lower than a floor of 0.50%.

Borrowings under the New Revolving Credit Facility will bear interest at a rate per annum equal to an applicable margin based upon a leverage-based pricing grid, plus, at the Company's option, either (1) a base rate determined by reference to the highest of (a) 0.50% per annum plus the federal funds effective rate, (b) the prime rate and (c) the eurocurrency rate determined by reference to the cost of funds adjusted for certain additional costs, plus 1.00%; provided such rate is not lower than a floor of 1.00% or (2) a eurocurrency rate determined by reference to the applicable cost of funds for such borrowing adjusted for certain additional costs; provided such rate is not lower than a floor of zero.

The New Term Loan amortizes in fixed equal quarterly installments in an amount equal to 1.0% per annum of the total aggregate principal amount thereof immediately after borrowing, with the balance due at maturity. We may voluntarily prepay loans or reduce commitments under the Credit Agreement, in whole or in part, subject to minimum amounts, with prior notice but without premium or penalty (subject to customary exceptions). We may be required, with certain exceptions, to make mandatory payments under the Credit Agreement using a percentage of our annual excess cash flows or net proceeds from any non-ordinary course asset sales or certain debt issuances, if any.

The Credit Agreement contains various customary affirmative and negative covenants. We were in compliance with such covenants as of July 1, 2022.

In addition, the New Revolving Credit Facility is subject to a first lien secured net leverage ratio of 7.50 to 1.00, tested quarterly commencing with the fiscal quarter ending on or about June 30, 2022, if, and only if, the aggregate principal amount from the revolving facility loans, letters of credit (to the extent not cash collateralized or backstopped or, in the aggregate, not in excess of the greater of $10.0 million and the stated face amount of letters of credit outstanding on the initial closing date of the Credit Agreement) and swingline loans outstanding and/or issued, as applicable, exceeds 35.0% of the total amount of the New Revolving Credit Facility commitments.

On August 4, 2021, we used a portion of the net proceeds from the IPO to repay a portion of the senior secured term loan outstanding under a credit agreement, dated August 4, 2017, between the Company's wholly owned subsidiary, Wirepath LLC, and the lenders thereunder (as amended, the "Old Credit Agreement") totaling $215.9 million in principal, plus accrued interest of $1.0 million. We also incurred a charge of $6.6 million related to the write-off of unamortized debt issuance costs.

In connection with the closing of the Credit Agreement, we repaid in full approximately $451.4 million of borrowings, including accrued interest, under the Old Credit Agreement. The term loan and revolving credit facilities and related agreements and documents under the Old Credit Agreement were terminated upon the effectiveness of the Credit Agreement.

As of July 1, 2022, we had $47.0 million outstanding under the New Revolving Credit Facility. As of December 31, 2021, we had no borrowings outstanding under the New Revolving Credit Facility. As of July 1, 2022 and December 31, 2021, we had $5.3 million and $4.9 million of outstanding letters of credit. The amount available under the New Revolving Credit Facility was $47.7 million and $95.1 million as of July 1, 2022, and December 31, 2021, respectively.

Historical Cash Flows

The following table sets forth our cash flows for the six months ended July 1, 2022 and June 25, 2021:

	Six Months Ended	
	July 1, 2022	**June 25, 2021**
	(in thousands)	
Net cash used in operating activities	$ (19,553)	$ (4,615)
Net cash used in investing activities	$ (32,608)	$ (30,663)
Net cash provided by (used in) financing activities	$ 44,919	$ (6,325)

Operating Activities

Net cash used in operating activities was $19.6 million in the six months ended July 1, 2022, as compared to $4.6 million in the six months ended June 25, 2021, an increase of $14.9 million. The increase in net cash used in operating activities during the six months ended July 1, 2022 was due to a $24.2 million net increase in cash used for operating assets and liabilities. Net cash used was primarily driven by an increase in inventory to protect against supply chain uncertainty. The increase was offset by profit from operations, excluding the non-cash impacts of $10.1 million equity-based compensation expenses and a $5.9 million provision for credit losses on notes receivable.

Investing Activities

Net cash used in investing activities was $32.6 million in the six months ended July 1, 2022, as compared to $30.7 million in the six months ended June 25, 2021, an increase of $1.9 million. The increase in net cash used in investing activities for the six months ended July 1, 2022, was primarily due to a $2.0 million increase in cash used to purchase property and equipment. Investing activities include cash used to acquire Staub in the six months ended July 1, 2022 and cash used to acquire Access in the six months ended June 25, 2021.

Financing Activities

Net cash provided by financing activities was $44.9 million for the six months ended July 1, 2022, compared to net cash used in financing activities of $6.3 million in the six months ended June 25, 2021, an increase of $51.2 million. The increase in net cash provided by financing activities for the six months ended July 1, 2022, was due to $47.0 million in borrowings on our New Revolving Credit Facility to help fund the acquisition of Staub and general corporate purchases. Additionally, we had an increase of $2.7 million due to IPO-related costs in the prior period and an increase of $2.4 million due to less principal payments on long-term debt in the current period. These increases were partially offset by $1.0 million of company stock repurchases as part of the share repurchase program.

Off-Balance Sheet Arrangements

As of July 1, 2022 and December 31, 2021, we had off-balance sheet arrangements totaling $5.3 million and $4.9 million related to our outstanding letters of credit. We have not entered into any other off-balance sheet arrangements, except as disclosed herein.

Contractual Obligations

We have contractual obligations comprised of payments of debt and interest, lease commitments, TRA and CVRs.

As of July 1, 2022, we had $47.0 million outstanding under the New Revolving Credit Facility, which we used to fund the Staub acquisition as well as for general corporate expenses.

Except as described herein, as of July 1, 2022, there have been no material changes in our contractual obligations and commitments other than in the ordinary course of business from the contractual obligations and commitments for the year ended December 31, 2021, as previously disclosed in our Annual Report.

Critical Accounting Estimates and Policies

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates and Policies" and our consolidated financial statements and related notes disclosed in our Annual Report for accounting policies and related estimates we believe are the most critical to understanding our consolidated financial statements, financial condition and results of operations and which require complex management judgment and assumptions or involve uncertainties. These critical accounting estimates and policies include revenue recognition; share-based compensation; income taxes; business combinations; inventories, net; goodwill and intangible assets; warranties; and CVRs. Effective January 1, 2022, we changed our approach to lease accounting in conjunction with our adoption of Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. There have been no other changes to our critical accounting estimates and policies or their application since the date of our Annual Report.

Recent Accounting Pronouncements

See Note 2 of the Notes to the Condensed Consolidated Financial Statements for information regarding recently issued accounting pronouncements.

Emerging Growth Company and Smaller Reporting Company Status

We qualify as an "emerging growth company" as defined in the JOBS Act. An emerging growth company may take advantage of reduced reporting requirements that are not otherwise applicable to public companies. These provisions include, but are not limited to:

- not being required to comply with the auditor attestation requirements on the effectiveness of our internal controls over financial reporting;
- reduced disclosure obligations regarding executive compensation arrangements in our periodic reports, proxy statements and registration statements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We may use these provisions until the last day of our fiscal year in which the fifth anniversary of the completion of our IPO occurs (which will be our 2026 fiscal year). However, if certain events occur prior to the end of such five-year period, including if we become a "large accelerated filer," our annual gross revenues exceed $1.07 billion, or we issue more than $1.0 billion of nonconvertible debt in any three-year period, we will cease to be an emerging growth company prior to the end of such five-year period.

Under the JOBS Act, emerging growth companies also can delay adopting new or revised accounting standards until such time as those standards would otherwise apply to private companies. We currently intend to take advantage of this exemption.

We are also a "smaller reporting company," because the market value of our shares held by non-affiliates was less than $200 million as of the end of our most recently completed second fiscal quarter. We may continue to be a smaller reporting company if either (i) the market value of our shares held by non-affiliates is less than $250 million or (ii) our annual revenue was less than $100 million during the most recently completed fiscal year and the market value of our shares held by non-affiliates is less than $700 million. If we are a smaller reporting company at the time we cease to be an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our earnings and financial position are exposed to financial market risk, including those resulting from changes in interest rates and market concentration risk.

Interest Rate Risk

We are subject to interest rate risk in connection with our Credit Agreement. As of July 1, 2022, we had $463.8 million outstanding under the New Term Loan portion of the Credit Agreement and $47.0 million outstanding under the New Revolving Credit Facility. The term loans and revolver bear interest at variable rates. Each quarter point increase in the variable rates on the amounts outstanding under the Credit Agreement and Revolving Credit Facility as of July 1, 2022 would increase annual cash interest in the aggregate by approximately $1.4 million.

Foreign Currency Exchange Risk

Changes in the exchange rates for the functional currencies of our international subsidiaries may positively or negatively impact our sales, operating expenses and earnings. Historically, we have not hedged our currency exposure and fluctuations in exchange rates have not materially affected our operating results. While our international operations, including Canada, the United Kingdom, and Australia, accounted for only 14% of total net revenue during the three and six months ended July 1, 2022, our exposure to currency rate fluctuations could be material in the remainder of 2022 and future years, to the extent that either currency rate changes are significant or that our international operations comprise a larger percentage of our consolidated results.

Inflation Risk

Inflationary factors may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, the current high rate of inflation may have an adverse effect on our ability to maintain current levels of expenses as a percentage of revenue if our revenue does not correspondingly increase with inflation.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that, as per the Exchange Act, information required to be disclosed by us in the reports that we file or submit under such Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our CEO and CFO.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

As disclosed in the section entitled "Risk Factors" in our Annual Report, we previously identified a material weakness in our internal control over financial reporting. Specifically, we did not design or maintain an effective control environment over certain information technology general controls or information systems and applications that are relevant to the preparation of our consolidated financial statements. We have taken and intend to continue to take steps to remediate the material weakness described above through additional measures that include hiring additional personnel with public company experience, and further evolving our accounting and business processes related to internal controls over financial reporting, including a plan for future system enhancements. We will not be able to fully remediate this material weakness until these steps have been completed and have been operating effectively for a sufficient period of time.

Changes in Internal Control over Financial Reporting

Other than certain controls implemented in connection with adoption of the lease accounting standard *(Topic 842)*, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) under the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or would be detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error. Additionally, controls can be circumvented by individual acts, collusion of two or more people, or by management override. The design of any system of controls is also based in part upon assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate due to changed conditions, or because the degree of compliance with policies or procedures may deteriorate. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and go undetected.

Part II - Other Information
Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings arising in the ordinary course of our business. Management believes that we do not have any pending or threatened litigation which, individually or in the aggregate, would have a material adverse effect on our business, results of operations, financial condition or cash flows.

For additional information, see Note 15 of the Notes to the Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes to our risk factors that we believe are material to our business, results of operations and financial condition, from the risk factors previously disclosed in our Annual Report.

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

On May 12, 2022, the Company announced that its board of directors authorized a $25.0 million share repurchase program. Under the share repurchase program, Snap One may purchase shares of common stock on a discretionary basis from time to time through open market repurchases, privately negotiated transactions or other means, including through Rule 10b5-1 trading plans or through the use of other techniques such as accelerated share repurchases. The timing and number of shares repurchased will depend on a variety of factors, including stock price, trading volume, and general business and market conditions. The repurchase program expires at the end of 2023, does not obligate the Company to acquire a specified number of shares and may be modified, suspended or discontinued at any time at the board of directors' discretion. As of July 1, 2022, we had approximately $24.0 million remaining under the repurchase program.

The following table is a summary of our repurchases of common shares during the three months ended July 1, 2022.

	Total Number of Shares Repurchased[(a)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs (In thousands)
April 2 - May 1	—	$ —	—	$ 25,000
May 2 - June 1	5,963	$ 12.16	5,963	$ 24,927
June 2 - July 1	88,264	$ 11.05	88,264	$ 23,952
	94,227	$ 11.12	94,227	

(a) All repurchases were made pursuant to the Company's repurchase program announced on May 12, 2022 as described in this section above.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Disaggregation of revenue

The information presented below is disclosed to supplement the retrospective presentation of our disaggregated revenue for the fiscal years ended December 31, 2021, December 25, 2020 and December 27, 2019, giving effect to the reclassifications mentioned below. Such reclassifications were made to conform to the current period presentation in the Disaggregation of Revenue disclosure included in Note 4 "Revenue and Geographic information" included in Item 1 of this Form 10-Q.

Disaggregation of revenues now includes United States other, a new revenue disaggregation beginning in the first quarter of 2022. Prior period revenues attributable to customers with whom the Company transacted domestically through recently acquired businesses and non-integrator channels, were reclassified from United States integrators to United States other. This reclassification did not affect total revenues. The table below presents the results as if the change had been in effect for the periods presented.

	For the Fiscal Years Ended		
	December 31, 2021	December 25, 2020	December 27, 2019
		(in thousands)	
United States integrators[(a)]	$ 829,845	$ 684,980	$ 486,327
United States other[(b)]	59,155	34,449	42,307
International[(c)]	119,013	94,684	62,208
Total	$ 1,008,013	$ 814,113	$ 590,842

(a) United States integrators is defined as professional "do-it-for-me" integrator customers who transact with Snap One through a traditional integrator channel and excludes the impact of recently acquired businesses domestically.
(b) United States other is defined as recently acquired entities and revenue generated through managed transactions with non-integrator customers, such as national accounts.
(c) International consists of all integrators and distributors who transact with Snap One outside of the United States.

Item 6. Exhibits

Exhibit Number	Description
3.1	Third Amended and Restated Certificate of Incorporation of Snap One Holdings Corp. (incorporated by reference to Exhibit 3.1 of the 10-Q for Snap One Holdings Corp. for the quarterly period ending June 25, 2021, filed on August 27, 2021.)
3.2	Second Amended and Restated Bylaws of Snap One Holdings Corp. (incorporated by reference to Exhibit 3.2 of the 10-Q for Snap One Holdings Corp. for the quarterly period ending June 25, 2021, filed on August 27, 2021.)
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from Snap One Holdings Corp.'s Quarterly Report on Form 10-Q for the quarter ended July 1, 2022 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statements of Changes in Stockholders Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith. The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Snap One Holdings Corp. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

Snap One Holdings Corp.

August 12, 2022	By:	/s/ John Heyman
		Name: John Heyman Title: Chief Executive Officer (Principal Executive Officer)
August 12, 2022	By:	/s/ Michael Carlet
		Name: Michael Carlet Title: Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, John Heyman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Snap One Holdings Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) paragraph omitted in accordance with Securities Exchange Act Rule 13a-14(a);

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2022

/s/ John Heyman

John Heyman
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

<u>CERTIFICATIONS</u>

I, Michael Carlet, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Snap One Holdings Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) paragraph omitted in accordance with Securities Exchange Act Rule 13a-14(a);

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2022

/s/ Michael Carlet

Michael Carlet
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

In connection with the Quarterly Report on Form 10-Q of Snap One Holdings Corp. (the "Company") for the quarter ended July 1, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Heyman, certify, pursuant to 18 U.S.C. § 1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 12, 2022

/s/ John Heyman

John Heyman
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

In connection with the Quarterly Report on Form 10-Q of Snap One Holdings Corp. (the “Company”) for the quarter ended July 1, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Carlet, certify, pursuant to 18 U.S.C. § 1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 12, 2022

/s/ Michael Carlet

Michael Carlet
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.