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 April 1, 2023

OR

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

Commission File Number: 001-39667

LESLIE'S, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-8397425**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2005 East Indian School Road Phoenix, AZ	**85016**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (602) 366-3999

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	LESL	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 pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

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

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

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

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

As of April 28, 2023, the Registrant had 183,843,169 shares of common stock, $0.001 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations or financial condition, business strategy, and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” or “would,” or the negative of these words or other similar terms or expressions. Our actual results or outcomes could differ materially from those indicated in these forward-looking statements for a variety of reasons, including, among others:

- our ability to execute on our growth strategies;
- supply disruptions;
- our ability to maintain favorable relationships with suppliers and manufacturers;
- competition from mass merchants and specialty retailers;
- impacts on our business from the sensitivity of our business to weather conditions, changes in the economy (including rising interest rates, recession fears, and inflationary pressures), geopolitical events or conflicts, and the housing market;
- disruptions in the operations of our distribution centers;
- our ability to implement technology initiatives that deliver the anticipated benefits, without disrupting our operations;
- our ability to attract and retain senior management and other qualified personnel;
- regulatory changes and development affecting our current and future products;
- our ability to obtain additional capital to finance operations;
- commodity price inflation and deflation;
- impacts on our business from epidemics, pandemics, or natural disasters;
- impacts on our business from cyber incidents and other security threats or disruptions;
- our ability to remediate the material weakness in our internal control over financial reporting or additional material weaknesses or other deficiencies in the future or to maintain effective disclosure controls and procedures and internal control over financial reporting; and
- other risks and uncertainties, including those listed in the section titled “Risk Factors” in our filings with the United States Securities and Exchange Commission (“SEC”).

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended October 1, 2022. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results or outcomes could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q, and, while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q are based on events or circumstances as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share and Per Share Amounts)

	April 1, 2023 (Unaudited)	October 1, 2022 (Audited)	April 2, 2022 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents	$ 8,701	$ 112,293	$ 51,971
Accounts and other receivables, net	37,988	45,295	33,619
Inventories	492,328	361,686	345,046
Prepaid expenses and other current assets	52,701	23,104	41,240
Total current assets	591,718	542,378	471,876
Property and equipment, net	80,612	78,087	70,547
Operating lease right-of-use assets	231,428	236,477	208,531
Goodwill and other intangibles, net	216,594	213,701	146,865
Deferred tax assets	—	1,268	2,429
Other assets	42,878	37,720	29,947
Total assets	$ 1,163,230	$ 1,109,631	$ 930,195
Liabilities and stockholders' deficit			
Current liabilities			
Accounts payable and accrued expenses	$ 222,704	$ 266,972	$ 268,475
Operating lease liabilities	61,587	60,373	61,612
Income taxes payable	—	12,511	—
Current portion of long-term debt	8,100	8,100	8,100
Total current liabilities	292,391	347,956	338,187
Deferred tax liabilities	676	—	—
Operating lease liabilities, noncurrent	173,531	179,835	149,818
Revolving Credit Facility	172,000	—	45,000
Long-term debt, net	776,542	779,726	782,921
Other long-term liabilities	3,055	65	—
Total liabilities	1,418,195	1,307,582	1,315,926
Commitments and contingencies			
Stockholders' deficit			
Common stock, $0.001 par value, 1,000,000,000 shares authorized and 183,843,169, 183,480,545, and 182,784,211 issued and outstanding as of April 1, 2023, October 1, 2022, and April 2, 2022, respectively.	184	183	183
Additional paid in capital	94,705	89,934	83,074
Retained deficit	(349,854)	(288,068)	(468,988)
Total stockholders' deficit	(254,965)	(197,951)	(385,731)
Total liabilities and stockholders' deficit	$ 1,163,230	$ 1,109,631	$ 930,195

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Sales	$ 212,844	$ 228,072	$ 407,948	$ 412,896
Cost of merchandise and services sold	141,674	142,443	271,482	259,951
Gross profit	71,170	85,629	136,466	152,945
Selling, general and administrative expenses	96,357	89,618	188,638	169,403
Operating loss	(25,187)	(3,989)	(52,172)	(16,458)
Other expense:				
Interest expense	17,247	6,949	30,607	13,812
Other expenses, net	—	161	—	550
Total other expense	17,247	7,110	30,607	14,362
Loss before taxes	(42,434)	(11,099)	(82,779)	(30,820)
Income tax benefit	(10,907)	(3,659)	(20,993)	(8,929)
Net loss	$ (31,527)	$ (7,440)	$ (61,786)	$ (21,891)
Earnings per share:				
Basic	$ (0.17)	$ (0.04)	$ (0.34)	$ (0.12)
Diluted	$ (0.17)	$ (0.04)	$ (0.34)	$ (0.12)
Weighted average shares outstanding:				
Basic	183,729	182,678	183,621	185,592
Diluted	183,729	182,678	183,621	185,592

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Amounts in Thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Total Stockholders' Deficit
Balance, January 1, 2022	182,497	$ 182	$ 80,062	$ (461,548)	$ (381,304)
Issuance of common stock under the Plan	287	1	228	—	229
Equity-based compensation	—	—	2,784	—	2,784
Net loss	—	—	—	(7,440)	(7,440)
Balance, April 2, 2022	182,784	$ 183	$ 83,074	$ (468,988)	$ (385,731)
Balance, December 31, 2022	183,564	$ 184	$ 92,508	$ (318,327)	$ (225,635)
Issuance of common stock under the Plan	367	—	—	—	—
Equity-based compensation	—	—	3,517	—	3,517
Restricted stock units surrendered in lieu of withholding taxes	(88)	—	(1,320)	—	(1,320)
Net loss	—	—	—	(31,527)	(31,527)
Balance, April 1, 2023	183,843	$ 184	$ 94,705	$ (349,854)	$ (254,965)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Total Stockholders' Deficit
Balance, October 2, 2021	189,821	$ 190	$ 204,711	$ (422,459)	$ (217,558)
Issuance of common stock under the Plan	463	1	328	—	329
Equity-based compensation	—	—	5,535	—	5,535
Repurchase and retirement of common stock	(7,500)	(8)	(127,500)	(24,638)	(152,146)
Net loss	—	—	—	(21,891)	(21,891)
Balance, April 2, 2022	182,784	$ 183	$ 83,074	$ (468,988)	$ (385,731)
Balance, October 1, 2022	183,481	$ 183	$ 89,934	$ (288,068)	$ (197,951)
Issuance of common stock under the Plan	477	1	—	—	1
Equity-based compensation	—	—	6,510	—	6,510
Restricted stock units surrendered in lieu of withholding taxes	(115)	—	(1,739)	—	(1,739)
Net loss	—	—	—	(61,786)	(61,786)
Balance, April 1, 2023	183,843	$ 184	$ 94,705	$ (349,854)	$ (254,965)

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Six Months Ended	
	April 1, 2023	**April 2, 2022**
Operating Activities		
Net loss	$ (61,786)	$ (21,891)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,425	15,817
Equity-based compensation	6,510	5,535
Amortization of deferred financing costs and debt discounts	1,006	986
Provision for doubtful accounts	123	418
Deferred income taxes	1,944	1,305
Loss on asset dispositions	118	118
Changes in operating assets and liabilities:		
Accounts and other receivables	7,919	4,823
Inventories	(127,365)	(132,358)
Prepaid expenses and other current assets	(30,897)	(20,306)
Other assets	(6,734)	(4,922)
Accounts payable and accrued expenses	(41,701)	26,588
Income taxes payable	(12,511)	(6,945)
Operating lease assets and liabilities, net	(41)	(5,925)
Net cash used in operating activities	(245,990)	(136,757)
Investing Activities		
Purchases of property and equipment	(14,828)	(14,322)
Business acquisitions, net of cash acquired	(9,939)	(29,988)
Proceeds from asset dispositions	1,176	407
Net cash used in investing activities	(23,591)	(43,903)
Financing Activities		
Borrowings on Revolving Credit Facility	193,000	45,000
Payments on Revolving Credit Facility	(21,000)	—
Repayment of long-term debt	(4,050)	(4,050)
Payment of deferred financing costs	(222)	—
Proceeds from options exercised	—	329
Repurchase and retirement of common stock	—	(152,146)
Payments of employee tax withholdings related to restricted stock vesting	(1,739)	—
Net cash provided by (used in) financing activities	165,989	(110,867)
Net decrease in cash and cash equivalents	(103,592)	(291,527)
Cash and cash equivalents, beginning of period	112,293	343,498
Cash and cash equivalents, end of period	$ 8,701	$ 51,971
Supplemental Information:		
Interest	$ 28,339	$ 13,325
Income taxes, net of refunds received	11,932	7,358

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE’S, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Business and Operations

Leslie’s, Inc. (“Leslie’s,” “we,” “our,” “us,” “its,” or the “Company”) is the leading direct-to-consumer pool and spa care brand. We market and sell pool and spa supplies and related products and services, which primarily consist of maintenance items such as chemicals, equipment and parts, and cleaning accessories, as well as safety, recreational, and fitness-related products. We currently market our products through 997 company-operated locations in 39 states and e-commerce websites.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

We prepared the accompanying interim condensed consolidated financial statements following United States generally accepted accounting principles (“GAAP”). The financial statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results. The interim condensed consolidated financial statements include the accounts of Leslie’s, Inc. and our subsidiaries. All significant intercompany accounts and transactions have been eliminated. These interim condensed consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended October 1, 2022.

Fiscal Periods

We operate on a fiscal calendar that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to September 30th. In a 52-week fiscal year, each quarter contains 13 weeks of operations; in a 53-week fiscal year, each of the first, second and third quarters includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations. References to the three months ended April 1, 2023 and April 2, 2022 refer to the 13 weeks ended April 1, 2023 and April 2, 2022, respectively. References to the six months ended April 1, 2023 and April 2, 2022 refer to the 26 weeks ended April 1, 2023 and April 2, 2022, respectively.

Use of Estimates

Management is required to make certain estimates and assumptions during the preparation of the condensed consolidated financial statements in accordance with GAAP. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the condensed consolidated financial statements. They also impact the reported amount of net income (loss) during any period. Actual results could differ from those estimates.

Significant estimates underlying the accompanying condensed consolidated financial statements include inventory reserves, lease assumptions, vendor rebate programs, our loyalty program, the determination of income taxes payable and deferred income taxes, sales returns reserve, self-insurance liabilities, the recoverability of intangible assets and goodwill, fair value of assets acquired in a business combination, and contingent consideration related to business combinations.

Seasonality

Our business is highly seasonal. Sales and earnings are highest during our third and fourth fiscal quarters, being April through September, which represent the peak months of swimming pool use. Sales are substantially lower during our first and second fiscal quarters.

Summary of Other Significant Accounting Policies

There have been no changes to our Significant Accounting Policies since our Annual Report on Form 10-K for the year ended October 1, 2022, other than the adoption of Reference Rate Reform discussed further below. For more information regarding our Significant Accounting Policies and Estimates, see Note 2—Summary of Significant Accounting Policies included in our Annual Report on Form 10-K for the year ended October 1, 2022.

Recent Accounting Pronouncements

In March 2020, January 2021 and December 2022, the FASB issued ASU No. 2020-04, 2021-01 and 2022-06, respectively, regarding Reference Rate Reform (collectively "Topic 848"). This collective guidance is in response to accounting concerns regarding contract modifications and hedge accounting because of impending rate reform associated with structural risks of interbank offered rates, and particularly, the risk of cessation of the London Inter-Bank Offer Rate ("LIBOR") related to regulators in several jurisdictions around the world having undertaken reference rate reform initiatives to identify alternative reference rates. The intended cessation date of the overnight 1-, 3-, 6-, and 12-month tenors of LIBOR is expected to be June 30, 2023. In addition, Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance is effective upon issuance and may be applied through December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The primary contracts for which LIBOR is used are our Revolving Credit Facility and Term Loan (as defined in Note 9—Long-Term Debt, Net). The Company transitioned from LIBOR to the Secured Overnight Financing Rate ("Term SOFR") for our Revolving Credit Facility and elected the optional expedients under the standard as of first day of the second quarter. This adoption did not have a material impact to our condensed consolidated financial statements. The Company plans to transition to Term SOFR for our Term Loan during the third quarter of fiscal 2023 and does not anticipate this adoption to have a material impact to our condensed consolidated financial statements.

Note 3—Business Combinations

Our condensed consolidated financial statements include the results of operations of these acquisitions from the date of acquisition. The total purchase consideration was allocated to the tangible and intangible assets acquired and the liabilities assumed at their estimated fair values as of each acquisition date, with the excess recorded to goodwill. The goodwill resulting from these acquisitions is expected to be deductible for income tax purposes. During the measurement periods, which will not exceed one year from each closing, we will continue to obtain information to assist us in finalizing the acquisition date fair values. Any qualifying changes to our preliminary estimates will be recorded as adjustments to the respective assets and liabilities, with any residual amounts allocated to goodwill.

Fiscal 2023 Acquisitions

During the six months ended April 1, 2023, we acquired three businesses for an aggregate purchase price of $9.9 million. These acquisitions expanded our pool and spa footprint and added seven new locations across Arizona, Florida, and Louisiana. The purchase accounting for these acquisitions has not yet been completed.

Fiscal 2022 Acquisitions

In fiscal 2022, we acquired six businesses for an aggregate purchase price of $107.7 million, inclusive of contingent consideration of up to $4.0 million if certain performance metrics are achieved within one to three years of the respective closing dates. Contingent considerations are remeasured to fair value at each reporting period until the contingency is resolved. These acquisitions expanded our pool and spa footprint and added 27 new locations as well as expanded our manufacturing capabilities. The following table sets forth the preliminary purchase price allocation of these acquisitions, net of immaterial measurement period adjustments, in the aggregate (in thousands). The purchase accounting for five of the six acquisitions is complete.

		Total
Total purchase consideration, net of cash acquired	$	107,663
Fair value of assets acquired and liabilities assumed:		
Inventories		20,050
Finite-lived intangible assets		15,200
Other assets and liabilities, net		3,086
Total assets acquired, net of liabilities assumed		38,336
Goodwill	$	69,327

Note 4 —Goodwill and Other Intangibles, Net

Goodwill

The following table details the changes in goodwill (in thousands):

	April 1, 2023	October 1, 2022	April 2, 2022
Balance at beginning of the period	$ 173,513	$ 101,114	$ 101,114
Acquisitions, net of measurement period adjustments	2,831	72,399	17,208
Balance at the end of the period	$ 176,344	$ 173,513	$ 118,322

Other Intangible Assets

Other intangible assets consisted of the following as of April 1, 2023 (in thousands, except weighted average remaining useful life):

	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks (finite life)	10.3	$ 26,740	$ (6,915)	$ 19,825
Trade name and trademarks (indefinite life)	Indefinite	9,350	—	9,350
Non-compete agreements	5.9	8,683	(7,482)	1,201
Consumer relationships	7.6	24,100	(14,419)	9,681
Other intangibles	5.6	6,620	(6,427)	193
Total		$ 75,493	$ (35,243)	$ 40,250

Other intangible assets consisted of the following as of October 1, 2022 (in thousands, except weighted average remaining useful life):

	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks (finite life)	11.0	$ 24,440	$ (5,907)	$ 18,533
Trade name and trademarks (indefinite life)	Indefinite	9,350	—	9,350
Non-compete agreements	6.5	8,683	(7,379)	1,304
Consumer relationships	7.9	24,100	(13,339)	10,761
Other intangibles	6.2	6,620	(6,380)	240
Total		$ 73,193	$ (33,005)	$ 40,188

Other intangible assets consisted of the following as of April 2, 2022 (in thousands, except weighted average remaining useful life):

	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks (finite life)	9.2	$ 7,940	$ (5,350)	$ 2,590
Trade name and trademarks (indefinite life)	Indefinite	17,750	—	17,750
Non-compete agreements	7.0	8,683	(7,276)	1,407
Consumer relationships	6.1	19,000	(12,513)	6,487
Other intangibles	6.7	6,620	(6,311)	309
Total		$ 59,993	$ (31,450)	$ 28,543

Amortization expense was $1.3 million and $0.1 million for the three months ended April 1, 2023 and April 2, 2022, respectively. Amortization expense was $2.2 million and $1.4 million for the six months ended April 1, 2023 and April 2, 2022, respectively. No impairment of goodwill or other intangible assets was recorded during the three and six months ended April 1, 2023 and April 2, 2022, respectively.

The following table summarizes the estimated future amortization expense related to finite-lived intangible assets on our condensed consolidated balance sheet as of April 1, 2023 (in thousands):

		Amount
Remainder of fiscal 2023	$	2,093
2024		3,324
2025		3,155
2026		2,767
2027		2,603
Thereafter		16,958
Total	$	30,900

Note 5—Accounts and Other Receivables, Net

Accounts and other receivables, net consisted of the following (in thousands):

		April 1, 2023		October 1, 2022		April 2, 2022
Vendor and other rebates receivable	$	18,114	$	24,546	$	20,519
Customer receivables		16,560		17,708		12,193
Other receivables		4,805		4,553		1,932
Allowance for doubtful accounts		(1,491)		(1,512)		(1,025)
Total	$	37,988	$	45,295	$	33,619

Note 6—Inventories

Inventories consisted of the following (in thousands):

		April 1, 2023		October 1, 2022		April 2, 2022
Raw materials	$	7,184	$	9,065	$	9,595
Finished goods		485,144		352,621		335,451
Total	$	492,328	$	361,686	$	345,046

Note 7—Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

		April 1, 2023		October 1, 2022		April 2, 2022
Prepaid insurance	$	6,125	$	1,110	$	5,991
Prepaid occupancy costs		1,937		1,840		1,732
Prepaid sales tax		3,027		2,874		3,266
Prepaid inventory		—		—		6,889
Prepaid other		3,994		4,847		3,333
Income taxes receivable		22,362		—		10,555
Other current assets		15,256		12,433		9,474
Total	$	52,701	$	23,104	$	41,240

Note 8—Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following (in thousands):

	April 1, 2023	October 1, 2022	April 2, 2022
Accounts payable	$ 139,804	$ 156,456	$ 160,909
Accrued payroll and employee benefits	18,439	34,010	20,050
Customer deposits	8,766	13,250	16,874
Interest	1,604	342	4,293
Inventory related accruals	15,444	16,034	15,072
Loyalty and deferred revenue	6,379	5,541	8,727
Sales tax	7,534	9,130	11,807
Self-insurance reserves	9,662	9,280	11,182
Other accrued liabilities	15,072	22,929	19,561
Total	$ 222,704	$ 266,972	$ 268,475

As of April 1, 2023, October 1, 2022, and April 2, 2022, capital expenditures included in other accrued liabilities were $1.2 million, $1.1 million, and $2.0 million, respectively.

Note 9—Long-Term Debt, Net

Our long-term debt, net consisted of the following (in thousands, except interest rates):

	Effective Interest Rate (1)	April 1, 2023	October 1, 2022	April 2, 2022
Term Loan—due on March 9, 2028	7.34 %(2)	$ 793,800	$ 797,850	$ 801,900
Revolving Credit Facility	6.61 %(3)	172,000	—	45,000
Total long-term debt		965,800	797,850	846,900
Less: current portion of long-term debt		(8,100)	(8,100)	(8,100)
Less: noncurrent Revolving Credit Facility		(172,000)	—	(45,000)
Less: unamortized discount		(2,562)	(2,805)	(3,046)
Less: deferred financing charges		(6,596)	(7,219)	(7,833)
Total long-term debt, net		$ 776,542	$ 779,726	$ 782,921

(1)Effective interest rates as of April 1, 2023.
(2)Carries interest at a specified margin over LIBOR between 2.50% and 2.75% with a minimum LIBOR of 0.50%.
(3)Carries interest at a specific margin between 0.25% and 0.75% with respect to Base Rate loans and between 1.25% and 1.75% with respect to Term SOFR loans.

Term Loan

In March 2021, we entered into an amendment to our term loan credit agreement ("Term Loan"). The amended Term Loan provides for an $810.0 million secured term loan facility with a maturity date of March 9, 2028. Borrowings under the Term Loan had an initial applicable rate, at our option, of (i) 2.75% for loans that are LIBOR loans and (ii) 1.75% for loans that are ABR loans. The applicable rate of the Term Loan is based on our first lien leverage ratio as follows: (a) if the first lien leverage ratio is greater than 2.75 to 1.00, the applicable rate will be 2.75% for LIBOR loans and 1.75% for ABR loans and (b) the first lien leverage ratio is less than or equal to 2.75 to 1.00, the applicable rate will be 2.50% for LIBOR loans and 1.50% for ABR loans. For LIBOR loans, the loans will bear interest at the adjusted LIBOR rate plus the applicable rate, where the adjusted LIBOR rate will not be less than 0.50%.

Revolving Credit Facility

In March 2023, we entered into Amendment No. 6 to our $200.0 million credit facility ("Revolving Credit Facility") maturing on August 13, 2025 (the "Amendment"). The Amendment (i) increased the revolving credit commitments under the Revolving Credit Facility in the amount of $50.0 million, such that the aggregate commitments are $250.0 million and (ii) replaced the existing LIBOR-based rate with a Term SOFR-based rate, as an interest rate benchmark. The Revolving Credit Facility has (i) an applicable margin on Base Rate loans with a range of 0.25% to 0.75%, (ii) an applicable margin on Term SOFR loans with a range of 1.25% and 1.75%, (iii) a SOFR Adjustment of 0.10% for all borrowing periods, (iv) a floor of 0% per annum, and (v) a commitment fee rate of 0.25% per annum. The other material terms of the Revolving Credit Facility prior to the Amendment remained substantially unchanged.

We had $172.0 million and $45.0 million outstanding on the Revolving Credit Facility as of April 1, 2023 and April 2, 2022, respectively. As of October 1, 2022, no amounts were outstanding on the Revolving Credit Facility. The amount available under our Revolving Credit Facility was reduced by $11.4 million of existing standby letters of credit as of April 1, 2023.

Representations and Covenants

Substantially all of our assets are pledged as collateral to secure our indebtedness. The Term Loan and the Revolving Credit Facility do not require us to comply with any financial covenants. The Term Loan and the Revolving Credit Facility contain customary representations and warranties, covenants, and conditions to borrowing. No event of default occurred as of April 1, 2023, October 1, 2022, or April 2, 2022.

Future Debt Maturities

The following table summarizes the debt maturities and scheduled principal repayments of our indebtedness as of April 1, 2023 (in thousands):

	Amount
Remainder of fiscal 2023	$ 4,050
2024	6,075
2025	182,125
2026	8,100
2027	8,100
Thereafter	757,350
Total	$ 965,800

Note 10—Income Taxes

Our effective income tax rate was a benefit of 25.4% for the six months ended April 1, 2023, compared to 29.0% for the six months ended April 2, 2022. The differences between the statutory rate and our effective rate for the six months ended April 1, 2023 and April 2, 2022 were primarily attributable to state taxes. Our effective income tax rate can fluctuate due to factors including valuation allowances, changes in tax laws, federal and state audits, and the impact of other discrete items.

In August 2022, the Inflation Reduction Act of 2022 was signed into law and contains provisions effective January 1, 2023 which were not material to the Company's income tax provision.

Note 11—Commitments & Contingencies

Contingencies

We are defendants in lawsuits or potential claims encountered in the normal course of business. When the potential liability from a matter can be estimated and the loss is considered probable, we record the estimated loss. Due to uncertainties related to the resolution of lawsuits, investigations and claims, the ultimate outcome may differ from the estimates. We do not expect that the resolutions of any of these matters will have a material effect to our condensed consolidated financial position or results of operations. We did not record any material loss contingencies as of April 1, 2023, October 1, 2022, and April 2, 2022, respectively.

Our workers' compensation insurance program, general liability insurance program, and employee group medical plan have self-insurance retention features of up to $0.4 million per event as of April 1, 2023, October 1, 2022, and April 2, 2022, respectively. We had standby letters of credit outstanding in the amount of $11.4 million as of April 1, 2023 for the purpose of securing such obligations under our workers' compensation self-insurance programs.

Note 12—Related Party Transactions

On December 14, 2021, the Company entered into a share repurchase agreement with Bubbles Investor Aggregator, L.P. and Explorer Investment Pte. Ltd. (together, the "Selling Stockholders"), each a greater than 5% beneficial owner of the Company's common stock at the time of the transaction, providing for the repurchase by the Company from the Selling Stockholders of an aggregate of 7.5 million shares of common stock, conditioned on the closing of a contemporaneous secondary public offering (the "Offering"). The price per share of repurchased common stock paid by the Company was $20.25, which represents the per share price at which shares of common stock were sold to the public in the Offering less the underwriting discount. The repurchase transaction closed on December 16, 2021. See Note 13—Share Repurchase Program for detailed information regarding our share repurchase program.

Note 13—Share Repurchase Program

On December 3, 2021, the board of directors authorized a share repurchase program for up to an aggregate of $300 million of the Company's outstanding shares of common stock over a period of three years, expiring December 3, 2024. The amount, price, manner, and timing of repurchases are determined by the Company in its discretion and depends on a number of factors, including legal requirements, price, economic and market conditions, the Company's financial condition, capital requirements, cash flows, results of operations, future business prospects, and other factors our management may deem relevant. The share repurchase program may be amended, suspended, or discontinued at any time. Shares may be repurchased from time-to-time using a variety of methods, including on the open market and/or in privately negotiated transactions, including under plans complying with Rule 10b5-1 under the Exchange Act, as part of accelerated share repurchases, and other methods.

On December 16, 2021, the Company repurchased and retired 7.5 million shares of common stock at a price per share of $20.25 under the program. The Company paid $151.9 million ($152.1 million including offering costs) to fund the share repurchase using existing cash on hand. The Company accounted for the share repurchase and retirement of shares under the cost method by deducting its par value from common stock, reducing additional paid-in-capital by $127.5 million (using the share price when the shares were originally issued), and increasing retained deficit by the remaining excess cost of $24.4 million.

As of April 1, 2023, approximately $147.7 million remained available for future purchases under our share repurchase program.

The following table presents information about our repurchases of common stock under our share repurchase program (in thousands):

	Three Months Ended		Six Months Ended	
	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Total number of shares repurchased	—	—	27	7,500
Total amount paid for shares repurchased	$ —	$ —	$ 419	$ 151,875

Note 14—Equity-Based Compensation

Equity-Based Compensation

2020 Omnibus Incentive Plan

In October 2020, we adopted the Leslie's, Inc. 2020 Omnibus Incentive Plan (the "Plan"). The Plan provides for the grant of awards such as non-qualified stock options to purchase Leslie's common stock (each, a "Stock Option"), restricted stock units ("RSUs") and performance stock units ("PSUs") which may settle in Leslie's, Inc. common stock to our directors, executives, and eligible employees of the Company. The vesting of the Company's outstanding and unvested Stock Options, RSUs, and PSUs is contingent upon the holder's continued service through the date of each applicable vesting event. As of April 1, 2023, we had approximately 7.5 million shares of common stock available for future grants under the Plan.

As of April 1, 2023, the aggregate unamortized value of all outstanding equity-based compensation awards was approximately $31.3 million, which is expected to be recognized over a weighted average period of approximately 2.4 years.

Stock Options

Stock Options granted under the Plan generally expire ten years from the date of grant and consist of Stock Options that vest upon the satisfaction of time-based requirements. The following tables summarizes our Stock Option activity under the Plan during the six months ended April 1, 2023 (in thousands, except per share amounts):

	April 1, 2023		
	Number of Options		Weighted Average Exercise Price
Outstanding, Beginning	3,780	$	18.24
Granted	—		—
Exercised	—		—
Forfeited/Expired	(259)		19.13
Balance, Ending	3,521	$	18.18
Vested and exercisable as of April 1, 2023	1,948	$	17.93

		As of April 1, 2023
Aggregate intrinsic value of options outstanding	$	—
Unamortized value of unvested stock options	$	6,656
Weighted average years that expense is expected to be recognized		1.4
Weighted average remaining contractual years outstanding		8.1

Restricted Stock Units and Performance Units

RSUs represent grants that vest ratably upon the satisfaction of time-based requirements. PSUs represent grants potentially issuable in the future based upon the Company's achievement of certain performance conditions. The fair value of our RSUs and PSUs are calculated based on the Company's stock price on the date of the grant.

The following table summarizes our RSU and PSU activity under the Plan during the six months ended April 1, 2023 (in thousands, except per share amounts):

	April 1, 2023		
	Number of RSUs/PSUs		Weighted Average Grant Date Fair Value
Outstanding, Beginning	2,297	$	10.04
Granted [(1)]	982		12.04
Vested	(478)		6.58
Forfeited	(148)		14.89
Balance, Ending	2,653	$	11.13

(1)Includes 0.3 million PSUs granted in December 2022 subject to the Company achieving certain adjusted net income and sales performance targets on a cumulative basis during each of fiscal years 2023, 2024, and 2025. The criteria are based on a range of these performance targets in which participants may earn between 0% to 200% of the base number of awards granted. The weighted average grant date fair value of the PSUs was $12.04 and assumes attainment of target payout rates at 100% as set forth in the performance criteria. Equity-based compensation expense is recognized for awards deemed probable of vesting.

		As of April 1, 2023
Unamortized value of unvested RSUs/PSUs	$	24,638
Weighted average period (years) expense is expected to be recognized		2.7

During the three months ended April 1, 2023 and April 2, 2022, equity-based compensation expense was $3.5 million and $2.8 million, respectively. During the six months ended April 1, 2023 and April 2, 2022, equity-based compensation expense was $6.5 million and $5.5 million, respectively. Equity-based compensation expense is reported in selling, general, & administrative expenses ("SG&A") in our condensed consolidated statements of operations.

Note 15—Earnings Per Share

The following is a reconciliation of basic weighted average common shares outstanding to diluted weighted average common shares outstanding (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Numerator:				
Net loss	$ (31,527)	$ (7,440)	$ (61,786)	$ (21,891)
Denominator:				
Weighted average shares outstanding - basic	183,729	182,678	183,621	185,592
Effect of dilutive securities:				
Stock Options	—	—	—	—
RSUs	—	—	—	—
Weighted average shares outstanding - diluted	183,729	182,678	183,621	185,592
Basic earnings per share	$ (0.17)	$ (0.04)	$ (0.34)	$ (0.12)
Diluted earnings per share	$ (0.17)	$ (0.04)	$ (0.34)	$ (0.12)

The following number of weighted-average potentially dilutive shares were excluded from the calculation of diluted earnings per share because the effect of including such shares would have been antidilutive (in thousands):

	Three Months Ended		Six Months Ended	
	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Stock Options	3,573	811	3,636	860
RSUs	1,761	2,467	1,865	2,652
Total	5,334	3,278	5,501	3,512

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 together with our condensed consolidated financial statements and related notes, which are included elsewhere in this Quarterly Report on Form 10-Q. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Actual results or outcomes may differ materially from those anticipated in these forward-looking statements, which are subject to risks, uncertainties, and other factors, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended October 1, 2022.

We operate on a fiscal calendar that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to September 30th. In a 52-week fiscal year, each quarter contains 13 weeks of operations; in a 53-week fiscal year, each of the first, second and third quarters includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations. References to the three months ended April 1, 2023 and April 2, 2022 refer to the 13 weeks ended April 1, 2023 and April 2, 2022, respectively. References to the six months ended April 1, 2023 and April 2, 2022 refer to the 26 weeks ended April 1, 2023 and April 2, 2022, respectively.

Our Company

We are the largest and most trusted direct-to-consumer brand in the $15 billion United States pool and spa care industry, serving residential and professional consumers. Founded in 1963, we are the only direct-to-consumer pool and spa care brand with national scale, operating an integrated marketing and distribution ecosystem powered by a physical network of 997 branded locations and a robust digital platform. We offer an extensive assortment of professional-grade products, the majority of which are exclusive to Leslie's, as well as certified installation and repair services, all of which are essential to the ongoing maintenance of pools and spas. Our dedicated team of associates, pool and spa care experts, and experienced service technicians are passionate about empowering our consumers with the knowledge, products, and solutions necessary to confidently maintain and enjoy their pools and spas. The considerable scale of our integrated marketing and distribution ecosystem, which is powered by our direct-to-consumer network, uniquely enables us to efficiently reach and service every pool and spa in the continental United States.

We operate primarily in the pool and spa aftermarket industry, which is one of the most fundamentally attractive consumer categories given its scale, predictability, and growth outlook. We have a highly predictable, recurring revenue model, as evidenced by our 59 consecutive years of sales growth. Approximately 80% of our assortment is comprised of non-discretionary products essential to the care of residential and commercial pools and spas. Our assortment includes chemicals, equipment and parts, cleaning and maintenance equipment, and safety, recreational, and fitness-related products. We also offer important essential services, such as equipment installation and repair for residential consumers and professional pool operators. Consumers receive the benefit of extended vendor warranties on purchased products from our locations and on installations or repairs from our certified in-field technicians. We offer complimentary, commercial-grade in-store water testing and analysis via our proprietary AccuBlue® system, which increases consumer engagement, conversion, basket size, and loyalty, resulting in higher lifetime value. Our water treatment expertise is powered by data and intelligence accumulated from the millions of water tests we have performed over the years, positioning us as the most trusted water treatment service provider in the industry. Due to the non-discretionary nature of our products and services, our business has historically delivered strong, uninterrupted growth and profitability in all market environments, including through the Great Recession and the COVID-19 pandemic.

We have a legacy of leadership and disruptive innovation. Since our founding in 1963, we have been the leading innovator in our category and have provided our consumers with the most advanced pool and spa care available. As we have scaled, we have leveraged our competitive advantages to strategically reinvest in our business and intellectual property to develop new value-added capabilities. Over the course of our history, we have pioneered complimentary in-store water testing, offered complimentary in-store equipment repair services, introduced the industry's first loyalty program, and developed an expansive platform of owned and exclusive brands. These differentiated capabilities allow us to meet the needs of any pool and spa owner, whether they care for their pool or spa themselves or rely on a professional, whenever, wherever, and however they choose to engage with us.

Key Factors and Measures We Use to Evaluate Our Business

We consider a variety of financial and operating measures in assessing the performance of our business. The key measures we use under GAAP are sales, gross profit and gross margin, SG&A, and operating income (loss). The key non-GAAP measures and other operating measures we use are comparable sales, comparable sales growth, Adjusted EBITDA, Adjusted net income (loss), and Adjusted earnings per share.

Sales

We offer a broad range of products that consists of regularly purchased, non-discretionary pool and spa maintenance items such as chemicals, equipment, cleaning accessories and parts, as well as installation and repair services for pool and spa equipment. Our offering of proprietary, owned, and third-party brands across diverse product categories drives sales growth by attracting new consumers and encouraging repeat visits from our existing consumers. Revenue from merchandise sales at retail locations is recognized at the point of sale, revenue from services is recognized when the services are rendered, and revenue from e-commerce merchandise sales is generally recognized upon shipment of the merchandise. Revenue is recorded net of related discounts and sales tax. Payment from retail customers is generally at the point of sale and payment terms for professional pool operator customers are based on our credit requirements and generally have terms of less than 60 days. When we receive payment from a consumer before the consumer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue or as a customer deposit until the sale or service is complete. Sales are impacted by product mix and availability, as well as promotional and competitive activities and the spending habits of our consumers. Growth of our sales is primarily driven by comparable sales growth and expansion of our locations in existing and new markets.

Comparable Sales and Comparable Sales Growth

We measure comparable sales growth as the increase or decrease in sales recorded by the comparable base in any reporting period, compared to sales recorded by the comparable base in the prior reporting period. The comparable base includes sales through our locations and through our e-commerce websites and third-party marketplaces. Comparable sales growth is a key measure used by management and our board of directors to assess our financial performance.

We consider a new or acquired location comparable in the first full month after it has completed one year of sales. Closed locations become non-comparable during their last partial month of operation. Locations that are relocated are considered comparable at the time the relocation is complete. Comparable sales is not calculated in the same manner by all companies, and accordingly, is not necessarily comparable to similarly titled measures of other companies and may not be an appropriate measure for performance relative to other companies.

The number of new locations reflects the number of locations opened during a particular reporting period. New locations require an initial capital investment in location buildouts, fixtures, and equipment, which we amortize over time as well as cash required for inventory.

As of April 1, 2023, we operated 997 locations in 39 states across the United States. We owned 27 locations and leased the remainder of our locations. Our initial lease terms are typically five years with options to renew for multiple successive five-year periods. We evaluate new opportunities in new and existing markets based on the number of pools and spas in the market, competition, our existing locations, availability and cost of real estate, and distribution and operating costs of our locations. We review performance of our locations on a regular basis and evaluate opportunities to strategically close locations to improve our profitability. Our limited investment costs in individual locations and our ability to transfer sales to our extensive network of remaining locations and e-commerce websites allows us to improve profitability as a result of any strategic closures.

Gross Profit and Gross Margin

Gross profit is equal to our sales less our cost of merchandise and services sold. Cost of merchandise and services sold reflects the direct cost of purchased merchandise, costs to package certain chemical products, including direct materials and labor, costs to provide services, including labor and materials, as well as distribution and occupancy costs. The direct cost of purchased merchandise includes vendor rebates, which are generally treated as a reduction of merchandise costs. We recognize such vendor rebates at the time the obligations to purchase products or perform services have been completed, and the related inventory has been sold. Distribution costs include warehousing and transportation expenses, including costs associated with third-party fulfillment centers used to ship merchandise to our e-commerce consumers. Occupancy costs include the rent, common area maintenance, real estate taxes, and depreciation and amortization costs of all retail locations. These costs are significant and are expected to continue to increase proportionate to our growth.

Gross margin is gross profit as a percentage of our sales. Gross margin is impacted by merchandise costs, pricing and promotions, product mix and availability, inflation, and service costs, which can vary. Our proprietary brands, custom-formulated products, and vertical integration provide us with cost savings, as well as greater control over product availability and quality as compared to other companies in the industry. Gross margin is also impacted by the costs of distribution and occupancy costs, which can vary.

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

Selling, General and Administrative Expenses

Our SG&A includes selling and operating expenses across our retail locations and digital platform, and our corporate-level general and administrative expenses. Selling and operating expenses at retail locations include payroll, bonus and benefit costs for personnel, supplies, and credit and debit card processing costs. Corporate expenses include payroll, bonus, and benefit costs for our corporate and field support functions, equity-based compensation, marketing and advertising, insurance, utilities, occupancy costs related to our corporate office facilities, professional services, and depreciation and amortization for all assets, except those related to our retail locations and distribution operations, which are included in cost of merchandise and services sold. Selling and operating expenses generally vary proportionately with sales and the change in the number of locations. In contrast, general and administrative expenses are generally not directly proportional to sales and the change in the number of locations but are expected to increase over time to support our growth and public company obligations. The components of our SG&A may not be comparable to the components of similar measures of other companies.

Operating Income (Loss)

Operating income (loss) is gross profit less SG&A. Operating income (loss) excludes interest expense, loss on debt extinguishment, income tax expense (benefit), and other (income) expenses, net. We use operating income (loss) as an indicator of the productivity of our business and our ability to manage expenses.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest (including amortization of debt issuance costs), taxes, depreciation and amortization, management fees, equity-based compensation expense, loss on debt extinguishment, costs related to equity offerings, strategic project costs, executive transition costs, severance, losses (gains) on asset dispositions, merger and acquisition costs, and other non-recurring, non-cash or discrete items. Adjusted EBITDA is a key measure used by management and our board of directors to assess our financial performance. Adjusted EBITDA is also frequently used by analysts, investors, and other interested parties to evaluate companies in our industry, when considered alongside other GAAP measures. We use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, and to compare our performance against that of other companies using similar measures.

Adjusted EBITDA is not a recognized measure of financial performance under GAAP but is used by some investors to determine a company's ability to service or incur indebtedness. Adjusted EBITDA is not calculated in the same manner by all companies, and accordingly, is not necessarily comparable to similarly titled measures of other companies and may not be an appropriate measure for performance relative to other companies. Adjusted EBITDA should not be construed as an indicator of a company's operating performance in isolation from, or as a substitute for, net income (loss), cash flows from operations or cash flow data, all of which are prepared in accordance with GAAP. We have presented Adjusted EBITDA solely as supplemental disclosure because we believe it allows for a more complete analysis of results of operations. Adjusted EBITDA is not intended to represent, and should not be considered more meaningful than, or as an alternative to, measures of operating performance as determined in accordance with GAAP. In the future, we may incur expenses or charges such as those added back to calculate Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these items.

Adjusted Net Income (Loss) and Adjusted Earnings per Share

Adjusted net income (loss) and Adjusted earnings per share are additional key measures used by management and our board of directors to assess our financial performance. Adjusted net income (loss) and Adjusted earnings per share are also frequently used by analysts, investors, and other interested parties to evaluate companies in our industry, when considered alongside other GAAP measures.

Adjusted net income (loss) is defined as net income (loss) adjusted to exclude management fees, equity-based compensation expense, loss on debt extinguishment, costs related to equity offerings, strategic project costs, executive transition costs, severance, losses (gains) on asset dispositions, merger and acquisition costs, and other non-recurring, non-cash, or discrete items. Adjusted diluted earnings per share is defined as Adjusted net income (loss) divided by the diluted weighted average number of common shares outstanding.

Factors Affecting the Comparability of our Results of Operations

Our reported results have been affected by, among other events, the following events, which must be understood in order to assess the comparability of our period-to-period financial performance and condition.

Impact of Macroeconomic Events and Uncertainties

Our financial performance and condition may be impacted to varying extents from period to period by macroeconomic and geopolitical developments, including the COVID-19 pandemic, escalating global conflicts, supply chain disruptions, labor market constraints, rising rates of inflation, rising interest rates, general economic slowdown, and potential failures among financial institutions. The extent of the impact of COVID-19 on our financial and operating performance depends significantly on the duration and severity of the pandemic, the actions taken to contain or mitigate its impact, and any changes in consumer behaviors. While it is not possible to predict the likelihood, timing, or severity of future direct and indirect impacts of COVID-19 on our business, due to the non-discretionary nature of our products and services, our business has delivered strong growth and profitability throughout the pandemic, despite restrictions on the operation of our locations and distribution facilities. Significant disruption to our supply chain for products we sell, as a result of COVID-19, geopolitical conflict or otherwise, could have a material impact on our sales and earnings.

Business Acquisitions

See Note 3—Business Combinations to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information regarding our business acquisitions.

Results of Operations

We derived our condensed consolidated statements of operations for the three and six months ended April 1, 2023 and April 2, 2022 from our condensed consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected in the future. The following table summarizes key components of our results of operations for the periods indicated, both in dollars and as a percentage of our sales (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
Statements of Operations Data:	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Sales	$ 212,844	$ 228,072	$ 407,948	$ 412,896
Cost of merchandise and services sold	141,674	142,443	271,482	259,951
Gross profit	71,170	85,629	136,466	152,945
Selling, general and administrative expenses	96,357	89,618	188,638	169,403
Operating loss	(25,187)	(3,989)	(52,172)	(16,458)
Other expense:				
Interest expense	17,247	6,949	30,607	13,812
Other expenses, net	—	161	—	550
Total other expense	17,247	7,110	30,607	14,362
Loss before taxes	(42,434)	(11,099)	(82,779)	(30,820)
Income tax benefit	(10,907)	(3,659)	(20,993)	(8,929)
Net loss	$ (31,527)	$ (7,440)	$ (61,786)	$ (21,891)
Earnings per share				
Basic	$ (0.17)	$ (0.04)	$ (0.34)	$ (0.12)
Diluted	$ (0.17)	$ (0.04)	$ (0.34)	$ (0.12)
Weighted average shares outstanding				
Basic	183,729	182,678	183,621	185,592
Diluted	183,729	182,678	183,621	185,592
Percentage of Sales(1)	(%)	(%)	(%)	(%)
Sales	100.0	100.0	100.0	100.0
Cost of merchandise and services sold	66.6	62.5	66.5	63.0
Gross margin	33.4	37.5	33.5	37.0
Selling, general and administrative expenses	45.3	39.3	46.2	41.0
Operating loss	(11.8)	(1.7)	(12.8)	(4.0)
Other expense:				
Interest expense	8.1	3.0	7.5	3.3
Other expenses, net	—	0.1	—	0.1
Total other expense	8.1	3.1	7.5	3.5
Loss before taxes	(19.9)	(4.9)	(20.3)	(7.5)
Income tax benefit	(5.1)	(1.6)	(5.1)	(2.2)
Net loss	(14.8)	(3.3)	(15.1)	(5.3)
Other Financial and Operations Data:				
Number of new and acquired locations, net	5	6	7	13
Number of locations open at end of period	997	965	997	965
Comparable sales growth(2)	(13.5)%	13.3 %	(9.4)%	16.4 %
Adjusted EBITDA(3)	$ (8,440)	$ 8,696	$ (20,355)	$ 9,792
Adjusted EBITDA as a percentage of sales(3)	(4.0)%	3.8 %	(5.0)%	2.4 %
Adjusted net loss(3)	$ (25,659)	$ (2,738)	$ (50,992)	$ (13,654)
Adjusted diluted earnings per share	$ (0.14)	$ (0.01)	$ (0.28)	$ (0.07)

(1)Components may not add to totals due to rounding.
(2)See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors and Measures We Use to Evaluate Our Business."
(3)The tables below provide a reconciliation from our net loss to Adjusted EBITDA and net loss to Adjusted net loss for the three and six months ended April 1, 2023 and April 2, 2022, respectively (in thousands).

	Three Months Ended		Six Months Ended	
	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Net loss	$ (31,527)	$ (7,440)	$ (61,786)	$ (21,891)
Interest expense	17,247	6,949	30,607	13,812
Income tax benefit	(10,907)	(3,659)	(20,993)	(8,929)
Depreciation and amortization expense(1)	8,922	6,576	17,425	15,817
Equity-based compensation expense(2)	3,662	2,918	6,706	5,712
Costs related to equity offerings(3)	—	161	—	550
Strategic project costs(4)	1,294	2,274	2,014	3,787
Executive transition costs and other(5)	2,869	917	5,672	934
Adjusted EBITDA	$ (8,440)	$ 8,696	$ (20,355)	$ 9,792

	Three Months Ended		Six Months Ended	
	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Net loss	$ (31,527)	$ (7,440)	$ (61,786)	$ (21,891)
Equity-based compensation expense(2)	3,662	2,918	6,706	5,712
Costs related to equity offerings(3)	—	161	—	550
Strategic project costs(4)	1,294	2,274	2,014	3,787
Executive transition costs and other(5)	2,869	917	5,672	934
Tax effects of these adjustments(6)	(1,957)	(1,568)	(3,598)	(2,746)
Adjusted net loss	$ (25,659)	$ (2,738)	$ (50,992)	$ (13,654)

(1)Includes depreciation related to our distribution centers and locations, which is reported in cost of merchandise and services sold in our condensed consolidated statements of operations.
(2)Represents charges related to equity-based compensation and the related Company payroll tax expense, which are reported in SG&A in our condensed consolidated statements of operations.
(3)Includes costs incurred for follow-on equity offerings, which are reported in other (income) expenses, net in our condensed consolidated statements of operations.
(4)Represents non-recurring costs, such as third-party consulting costs, which are not part of our ongoing operations and are incurred to execute differentiated, strategic projects, and are reported in SG&A in our condensed consolidated statements of operations.
(5)Includes executive transition costs, severance associated with corporate restructuring, losses (gains) on asset dispositions, merger and acquisition costs, and other non-recurring, non-cash, or discrete items as determined by management. Amounts are reported in SG&A in our condensed consolidated statements of operations.
(6)Represents the tax effect of the total adjustments based on our actual statutory tax rate. Amounts are reported in income tax benefit in our condensed consolidated statements of operations.

Selected Financial Information

Sales

Sales decreased to $212.8 million for the three months ended April 1, 2023, from $228.1 million in the prior year period, a decrease of $15.3 million, or 6.7%. Comparable sales decreased $31.0 million, or 13.5%, compared to the prior year period, primarily driven by the normalization of the seasonal purchasing cycle to pre-pandemic patterns and adverse weather. Non-comparable sales related to acquisitions and new stores contributed $15.7 million compared to the prior year period.

Sales decreased to $407.9 million for the six months ended April 1, 2023, from $412.9 million in the prior year period, a decrease of $5.0 million, or 1.2%. Comparable sales decreased $38.9 million, or 9.4%, compared to the prior year period, primarily driven by the normalization of the seasonal purchasing cycle to pre-pandemic patterns during the second quarter and adverse weather that impacted the first half of the year. Non-comparable sales related to acquisitions and new stores contributed $33.9 million compared to the prior year period.

Gross Profit and Gross Margin

Gross profit decreased to $71.2 million for the three months ended April 1, 2023 from $85.6 million in the prior year period, a decrease of $14.4 million, or 16.9%. Gross margin decreased to 33.4% compared to 37.5% in the prior year period, a decrease of 410 basis points. Gross profit decreased to $136.5 million for the six months ended April 1, 2023 from $152.9 million in the prior year period, a decrease of $16.4 million, or 10.8%. Gross margin decreased to 33.5% compared to 37.0% in the prior year period, a decrease of 360 basis points. The decreases in gross profit were primarily attributable to occupancy and distribution cost deleverage.

Selling, General and Administrative Expenses

SG&A increased to $96.4 million during the three months ended April 1, 2023 from $89.6 million during the three months ended April 2, 2022, an increase of $6.8 million, or 7.5%. This increase in SG&A was primarily related to a $3.8 million increase primarily driven by non-comparable SG&A associated with acquisitions and increased investments in our associates; a $2.0 million increase in executive transition and other costs primarily related to severance payments associated with the elimination of non-customer facing positions and non-recurring merger and acquisition costs; higher depreciation and amortization expense of $1.4 million; and a $0.7 million increase in non-cash equity based compensation expense. These increases were offset by lower strategic project costs incurred of $1.0 million compared to the prior year period.

SG&A increased to $188.6 million during the six months ended April 1, 2023 from $169.4 million during the six months ended April 2, 2022, an increase of $19.2 million, or 11.4%. This increase in SG&A was primarily related to a $16.0 million increase primarily driven by non-comparable SG&A associated with acquisitions and increased investments in our associates; a $4.8 million increase in executive transition and other costs primarily related to severance payments associated with the elimination of non-customer facing positions and non-recurring merger and acquisition costs; and a $1.0 million increase in non-cash equity-based compensation expense. These increases were offset by lower strategic project costs incurred of $1.8 million and lower other non-recurring costs and depreciation and amortization expense of $0.6 million compared to the prior year period.

Total Other Expense

Total other expenses increased to $17.2 million for the three months ended April 1, 2023 from $7.1 million in the prior year period, an increase of $10.1 million. Total other expenses increased to $30.6 million for the six months ended April 1, 2023 from $14.4 million in the prior year period, an increase of $16.2 million.

The increases in other expenses were primarily related to the increase in interest expense of $10.3 million and $16.8 million for the three and six months ended April 1, 2023, respectively, compared to the prior year periods, due to higher interest rates on our Term Loan and Revolving Credit Facility and increased borrowings on our Revolving Credit Facility.

Income Taxes

Income tax benefit increased to $10.9 million for the three months ended April 1, 2023 compared to $3.7 million in the prior year period, an increase of $7.2 million. Income tax benefit increased to $21.0 million for the six months ended April 1, 2023 compared to $8.9 million in the prior year period, an increase of $12.1 million. These increases were primarily attributable to higher pretax losses.

The effective income tax rate was a benefit of 25.7% and 25.4% for the three and six months ended April 1, 2023, respectively. The effective income tax rate was a benefit of 33.0% and 29.0% for the three and six months ended April 2, 2022, respectively, and included the net income tax benefits attributable to equity-based compensation awards and research and development credits.

Net Loss and Earnings per Share

Net loss increased to $(31.5) million for the three months ended April 1, 2023 compared to $(7.4) million in the prior year period, an increase of $24.1 million. Net loss increased to $(61.8) million for the six months ended April 1, 2023 compared to $(21.9) million in the prior year period, an increase of $39.9 million. Diluted earnings per share was $(0.17) for the three months ended April 1, 2023 compared to $(0.04) in the prior year period. Diluted earnings per share was $(0.34) for the six months ended April 1, 2023 compared to $(0.12) in the prior year period.

Adjusted net loss increased to $(25.7) million for the three months ended April 1, 2023 compared to $(2.7) million in the prior year period, an increase of $23.0 million. Adjusted net loss increased to $(51.0) million for the six months ended April 1, 2023 compared to $(13.7) million in the prior year period, an increase of $37.3 million. Adjusted diluted earnings per share was $(0.14) for the three months ended April 1, 2023 compared to $(0.01) in the prior year period. Adjusted diluted earnings per share was $(0.28) for the six months ended April 1, 2023 compared to $(0.07) in the prior year period.

Adjusted EBITDA

Adjusted EBITDA decreased to $(8.4) million for the three months ended April 1, 2023 compared to $8.7 million in the prior year period, a decrease of $17.1 million. Adjusted EBITDA decreased to $(20.4) million for the six months ended April 1, 2023 compared to $9.8 million in the prior year period, a decrease of $30.2 million. These decreases were primarily due to decreases in gross profit and higher SG&A.

Seasonality and Quarterly Fluctuations

Our business is highly seasonal. Sales and earnings are highest during the third and fourth fiscal quarters, which include April through September, and represent the peak months of swimming pool use. Sales are substantially lower during our first and second fiscal quarters. We have a long track record of investing in our business throughout the year, including in operating expenses, working capital, and capital expenditures related to new locations and other growth initiatives. While these investments drive performance during the primary selling season in our third and fourth fiscal quarters, they have a negative impact on our earnings and cash flow during our first and second fiscal quarters.

We typically experience a build-up of inventory and accounts payable during the first and second fiscal quarters in anticipation of the peak swimming pool supply selling season. We negotiate extended payment terms with certain of our primary suppliers as we receive merchandise in December through March, and we pay for merchandise in April through July.

The principal external factor affecting our business is weather. Hot weather can increase purchases of chemicals and other non-discretionary products as well as purchases of discretionary products and can drive increased purchases of installation and repair services. Unseasonably cool weather or significant amounts of rainfall during the peak sales season can reduce chemical consumption in pools and spas and decrease consumer purchases of our products and services. In addition, unseasonably early or late warming trends can increase or decrease the length of the pool season and impact timing around pool openings and closings and, therefore, our total sales and timing of our sales.

We generally open new locations before our peak selling season begins and we generally close locations after our peak selling season ends. We expect that our quarterly results of operations will fluctuate depending on the timing and amount of sales contributed by new locations.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are net cash provided by operating activities and borrowing availability under our Revolving Credit Facility. Historically, we have funded working capital requirements, capital expenditures, payments related to acquisitions, debt service requirements and repurchases of shares of our common stock with internally generated cash on hand and through our Revolving Credit Facility.

Cash and cash equivalents consist primarily of cash on deposit with banks. Cash and cash equivalents totaled $8.7 million and $112.3 million as of April 1, 2023 and October 1, 2022, respectively. As of April 1, 2023, we had $172.0 million outstanding on our Revolving Credit Facility. No amounts were outstanding as of October 1, 2022.

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, expenditures related to our distribution centers, and new location openings. We expect to fund capital expenditures from net cash provided by operating activities.

Based on our growth plans, we believe our cash and cash equivalents position, net cash provided by operating activities and borrowing availability under our Revolving Credit Facility will be adequate to finance our working capital requirements, planned capital expenditures, strategic acquisitions, share repurchases, and debt service over the next 12 months. If cash provided by operating activities and borrowings under our Revolving Credit Facility are not sufficient or available to meet our capital requirements, then we may need to obtain additional equity or debt financing. There can be no assurance that equity or debt financing will be available to us if we need it or, if available, whether the terms will be satisfactory to us.

As of April 1, 2023, outstanding standby letters of credit totaled $11.4 million and, after considering borrowing base restrictions, we had $66.6 million of available borrowing capacity under the terms of the Revolving Credit Facility. As of April 1, 2023, we were in compliance with the covenants under the Revolving Credit Facility and our Term Loan agreements.

Summary of Cash Flows

A summary of our cash flows from operating, investing, and financing activities is presented in the following table (in thousands):

	Six Months Ended	
	April 1, 2023	April 2, 2022
Net cash used in operating activities	$ (245,990)	$ (136,757)
Net cash used in investing activities	(23,591)	(43,903)
Net cash provided by (used in) financing activities	165,989	(110,867)
Net decrease in cash and cash equivalents	$ (103,592)	$ (291,527)

Cash Used in Operating Activities

Net cash used in operating activities increased to $246.0 million for the six months ended April 1, 2023 compared to $136.8 million in the prior year period, an increase of $109.2 million. This increase was primarily driven by higher net loss in the current year period and changes in working capital related to the timing of strategic investment in product inventories to meet customer demand across product categories.

Cash Used in Investing Activities

Net cash used in investing activities decreased to $23.6 million for the six months ended April 1, 2023 compared to $43.9 million in the prior year period, a decrease of $20.3 million. This decrease was driven by lower investments for business acquisitions of $20.0 million compared to the prior year period.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the six months ended April 1, 2023 was $166.0 million and was primarily related to net borrowings on our Revolving Credit Facility of $172.0 million, partially offset by repayment of long-term debt of $4.1 million. Net cash used in financing activities for the six months ended April 2, 2022 was $110.9 million and was primarily related to the repurchase of common stock of $152.1 million and repayment of long-term debt of $4.1 million, partially offset by borrowings on our Revolving Credit Facility of $45.0 million.

Share Repurchase Program

On December 3, 2021, the board of directors authorized a share repurchase program for up to an aggregate of $300 million of the Company's outstanding shares of common stock over a period of three years, expiring December 31, 2024. As of April 1, 2023, approximately $147.7 million remained available for future purchases under our share repurchase program (see Note 13—Share Repurchase Program to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q).

Contractual Obligations and Other Commitments

The following table summarizes our contractual cash obligations as of April 1, 2023 (in thousands):

	Payments Due By Period						
	Total	Remainder of 2023	2024	2025	2026	2027	Thereafter
Revolving Credit Facility (1)	$ 172,000	$ —	$ —	$ 172,000	$ —	$ —	$ —
Term Loan	793,800	4,050	6,075	10,125	8,100	8,100	757,350
Letters of credit	11,390	11,390	—	—	—	—	—
Purchase commitments (2)	202,788	40,961	77,110	75,331	4,897	2,990	1,499
Operating lease obligations (3)	267,594	33,804	73,773	58,240	48,452	29,480	23,845
Total	$ 1,447,572	$ 90,205	$ 156,958	$ 315,696	$ 61,449	$ 40,570	$ 782,694

(1)We are required to pay a commitment fee of 0.25% based on the unused portion of the Revolving Credit Facility.
(2)Purchase obligations include all legally binding contracts and primarily relate to firm commitments for inventory purchases. Purchase orders that are not binding agreements are excluded from the table above.

(3)Operating lease obligations relate to our locations, office, distribution, and manufacturing facilities. We are obligated to make cash payments in connection with various lease obligations and purchase commitments and all obligations require cash payments to be made by us over varying periods of time. Certain leases are renewable at our option typically for periods of five or more years and are cancelable on short notice, and others require payments upon early termination.

Critical Accounting Estimates

The preparation of our condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the reported periods. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and results of operations, and which require a company to make its most difficult and subjective judgements. Based on this definition, we have identified the critical accounting policies and judgements, which are disclosed in our Annual Report on Form 10-K for the fiscal year ended October 1, 2022. We base these estimates on historical results and various other assumptions we believe to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

There have been no material changes to our critical accounting estimates during the three and six months ended April 1, 2023 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 1, 2022.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 2—Summary of Significant Accounting Policies to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 1, 2022. The interest rate on borrowings under our Revolving Credit Facility were based on LIBOR prior to March 2023. Due to the discontinuation of LIBOR, we have transitioned the impacted interest rate benchmark to Term SOFR. See Note 9—Long-Term Debt, Net to our condensed consolidated financial statements for additional information.

Impact of Inflation and Deflation

There have been no material changes in our exposure to inflation or deflation from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 1, 2022.

Item 4. Controls and Procedures.

Management's Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the appropriate time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures were ineffective as the material weakness in internal control over financial reporting that was disclosed in our Annual Report on Form 10-K for the fiscal year ended October 1, 2022 was not yet remediated as of April 1, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended April 1, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as described below.

Remediation

As previously disclosed in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended October 1, 2022, we are in the process of implementing a plan to address the material weakness in internal control over financial reporting that was disclosed in our Annual Report on Form 10-K. The material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We anticipate that the remediation of this material weakness will be completed during fiscal year 2023. We are committed to continuing to improve our internal control processes, and, as we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify certain of our remediation measures.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to various litigations, claims and other proceedings that arise from time to time in the ordinary course of business. We believe these actions are routine and incidental to the business. As of April 1, 2023, we had established reserves for claims that were probable and estimable and such reserves were not significant as of such date. While we cannot feasibly predict the outcome of these matters with certainty, we believe, based on examination of these matters, experience to date and discussions with counsel, that the ultimate liability, individually or in the aggregate, will not have a material adverse effect on our business, financial position, results of operations, or cash flows.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended October 1, 2022, other than the risk factors presented below.

Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults, or non-performance by financial institutions or transactional counterparties, could adversely affect the Company's current and projected business operations and its financial condition and results of operations.

Actual events involving reduced or limited liquidity, defaults, non-performance, or other adverse developments that affect financial institutions or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds, have in the past and may in the future lead to market-wide liquidity problems. For example, in March 2023, the Federal Deposit Insurance Corporation ("FDIC") took control of Silicon Valley Bank and Signature Bank due to liquidity concerns. Although we did not have any cash or cash equivalent balances on deposit with Silicon Valley Bank or Signature Bank, investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, thereby making it more difficult for us to acquire financing on acceptable terms or at all. Any decline in available funding or access to our cash and liquidity resources could, among other risks, adversely impact our ability to meet our operating expenses, financial obligations or fulfill our other obligations, or result in breaches of our financial and/or contractual obligations. Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors not described above, could have material adverse impacts on our liquidity and our current and/or projected business operations and financial condition and results of operations.

We maintain our cash at financial institutions in balances that may exceed federally insured limits.

The majority of our cash is held in accounts at U.S. banking institutions, and the amounts of cash held in non-interest-bearing and interest-bearing operating accounts may exceed the FDIC insurance limits. If the banking institutions we use were to fail, we could lose all or a portion of those amounts held in excess of such insurance limitations, and our ability to access such funds in a timely manner, or at all, could be limited. Any material loss or delayed receipt of cash that we may experience in the future could have an adverse effect on our ability to pay our operational expenses or make other payments and may require us to move our accounts to other banks, which could cause a temporary delay in making payments to our suppliers, vendors, and employees, and cause other operational challenges.

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

None.

Sales of Unregistered Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Exhibit	Filing Date/ Period End Date
3.1	Sixth Amended and Restated Certificate of Incorporation, effective as of March 16, 2023	8-K	3.1	3/16/2023
10.41	Amendment No. 6, dated as of March 15, 2023, to the Credit Agreement among Leslie's Poolmart, Inc., Leslie's, Inc., and the subsidiary borrowers named therein, Bank of America, N.A., as Administrative Agent, and U.S. Bank National Association, Co-Collateral Agent	8-K	10.1	3/16/2023
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934			
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934			
32.1+	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350			
32.2+	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350			
101.INS*	Inline XBRL Instance Document			
101.SCH*	Inline XBRL Schema Document			
101.CAL*	Inline XBRL Calculation Linkbase Document			
101.LAB*	Inline XBRL Label Linkbase Document			
101.PRE*	Inline XBRL Presentation Linkbase Document			
101.DEF*	Inline XBRL Definition Linkbase Document			
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document).			

* Filed herewith.
+ Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

LESLIE'S, INC.

Date: May 4, 2023	By:	/s/ Steven M. Weddell
		Steven M. Weddell
		Executive Vice President and Chief Financial Officer
		(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION 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

I, Michael R. Egeck, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Leslie’s, Inc.;

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

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

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

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

(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 4, 2023	By:	/s/ Michael R. Egeck
		Michael R. Egeck
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION 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

I, Steven M. Weddell, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Leslie's, Inc.;

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

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

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

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

(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 4, 2023	By:	/s/ Steven M. Weddell
		Steven M. Weddell
		Chief Financial Officer
		(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Leslie's, Inc. (the "Company") for the quarter ended April 1, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2023	By:	/s/ Michael R. Egeck **Michael R. Egeck** **Chief Executive Officer** **(Principal Executive Officer)**

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Leslie's, Inc. (the "Company") for the quarter ended April 1, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2023	By:	/s/ Steven M. Weddell **Steven M. Weddell** **Chief Financial Officer** **(Principal Financial Officer and Principal Accounting Officer)**