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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: **September 30, 2017**

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: **001-34767**

CLARUS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

58-1972600

(I.R.S. Employer
Identification Number)

**2084 East 3900 South
Salt Lake City, Utah**

(Address of principal executive offices)

84124

(Zip code)

(801) 278-5552

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

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

As of November 1, 2017, there were 30,041,265 shares of common stock, par value \$0.0001, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLARUS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Assets		
Current assets		
Cash	\$ 1,672	\$ 94,738
Accounts receivable, less allowance for doubtful accounts of \$411 and \$399, respectively	35,414	23,232
Inventories	66,982	45,410
Prepaid and other current assets	2,416	3,480
Income tax receivable	-	85
Total current assets	<u>106,484</u>	<u>166,945</u>
Property and equipment, net	24,319	11,055
Other intangible assets, net	24,690	9,769
Indefinite lived intangible assets	41,794	22,541
Goodwill	18,156	-
Other long-term assets	350	147
Total assets	<u>\$ 215,793</u>	<u>\$ 210,457</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 23,021	\$ 17,740
Income tax payable	513	969
Current portion of long-term debt	-	21,898
Total current liabilities	<u>23,534</u>	<u>40,607</u>
Long-term debt, net	27,353	-
Deferred income taxes	9,169	8,966
Other long-term liabilities	222	76
Total liabilities	<u>60,278</u>	<u>49,649</u>
Stockholders' Equity		
Preferred stock, \$.0001 par value; 5,000 shares authorized; none issued	-	-
Common stock, \$.0001 par value; 100,000 shares authorized; 32,917 and 32,888 issued and 30,041 and 30,016 outstanding, respectively	3	3
Additional paid in capital	484,833	483,925
Accumulated deficit	(316,409)	(309,717)
Treasury stock, at cost	(12,415)	(12,398)
Accumulated other comprehensive loss	(497)	(1,005)
Total stockholders' equity	<u>155,515</u>	<u>160,808</u>
Total liabilities and stockholders' equity	<u>\$ 215,793</u>	<u>\$ 210,457</u>

See accompanying notes to condensed consolidated financial statements.

CLARUS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended	
	September 30, 2017	September 30, 2016
Sales		
Domestic sales	\$ 21,141	\$ 17,939
International sales	24,633	21,502
Total sales	<u>45,774</u>	<u>39,441</u>
Cost of goods sold	<u>30,490</u>	<u>27,105</u>
Gross profit	15,284	12,336
Operating expenses		
Selling, general and administrative	14,431	11,483
Restructuring charge	33	282
Transaction costs	1,869	-
Total operating expenses	<u>16,333</u>	<u>11,765</u>
Operating (loss) income	<u>(1,049)</u>	<u>571</u>
Other income (expense)		
Interest expense, net	(71)	(719)
Other, net	213	422
Total other income (expense), net	<u>142</u>	<u>(297)</u>
(Loss) income before income tax	(907)	274
Income tax expense	676	679
Net loss	<u>(1,583)</u>	<u>(405)</u>
Other comprehensive income (loss), net of tax:		
Unrealized loss on marketable securities	-	(68)
Foreign currency translation adjustment	684	176
Unrealized (loss) income on hedging activities	(419)	147
Other comprehensive income	<u>265</u>	<u>255</u>
Comprehensive loss	<u>\$ (1,318)</u>	<u>\$ (150)</u>
Net loss per share:		
Basic	\$ (0.05)	\$ (0.01)
Diluted	(0.05)	(0.01)
Weighted average shares outstanding:		
Basic	30,017	30,063
Diluted	30,017	30,063

See accompanying notes to condensed consolidated financial statements.

CLARUS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(In thousands, except per share amounts)

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Sales		
Domestic sales	\$ 59,474	\$ 54,190
International sales	58,536	52,600
Total sales	<u>118,010</u>	<u>106,790</u>
Cost of goods sold	<u>81,388</u>	<u>75,155</u>
Gross profit	36,622	31,635
Operating expenses		
Selling, general and administrative	39,826	37,311
Restructuring charge	116	1,275
Transaction costs	1,869	269
Arbitration award	-	(1,967)
Total operating expenses	<u>41,811</u>	<u>36,888</u>
Operating loss	<u>(5,189)</u>	<u>(5,253)</u>
Other (expense) income		
Interest expense, net	(948)	(2,142)
Other, net	435	826
Total other expense, net	<u>(513)</u>	<u>(1,316)</u>
Loss before income tax	(5,702)	(6,569)
Income tax expense	990	1,020
Net loss	<u>(6,692)</u>	<u>(7,589)</u>
Other comprehensive income (loss), net of tax:		
Unrealized income on marketable securities	-	107
Foreign currency translation adjustment	2,305	522
Unrealized (loss) income on hedging activities	(1,797)	70
Other comprehensive income	<u>508</u>	<u>699</u>
Comprehensive loss	<u>\$ (6,184)</u>	<u>\$ (6,890)</u>
Net loss per share:		
Basic	\$ (0.22)	\$ (0.25)
Diluted	(0.22)	(0.25)
Weighted average shares outstanding:		
Basic	30,015	30,525
Diluted	30,015	30,525

See accompanying notes to condensed consolidated financial statements.

CLARUS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Cash Flows From Operating Activities:		
Net loss	\$ (6,692)	\$ (7,589)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation of property and equipment	1,830	1,705
Amortization of intangible assets	1,183	808
Accretion of notes payable	833	1,358
Amortization of debt issuance costs	11	-
Gain on sale of marketable securities	-	(241)
Loss (gain) on disposition of assets	109	(5)
(Gain) loss from removal of accumulated translation adjustment	(149)	126
Stock-based compensation	729	193
Deferred income taxes	446	(230)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(8,524)	(294)
Inventories	(8,274)	6,516
Prepaid and other assets	(808)	3,307
Accounts payable and accrued liabilities	3,489	(1,121)
Income taxes	(387)	1,127
Other	(374)	(255)
	<u>(16,578)</u>	<u>5,405</u>
Net cash (used in) provided by operating activities		
Cash Flows From Investing Activities:		
Proceeds from the sales of marketable securities	-	10,235
Payments related to the sale of POC	-	(921)
Purchase of business, net of cash received	(79,238)	-
Proceeds from disposition of property and equipment	53	23
Purchase of property and equipment	(1,919)	(2,036)
Net cash (used in) provided by investing activities	<u>(81,104)</u>	<u>7,301</u>
Cash Flows From Financing Activities:		
Net proceeds from revolving credit facilities	27,353	-
Repayments of long-term debt	(22,690)	-
Payment of debt issuance costs	(334)	-
Purchase of treasury stock	(17)	(5,222)
Proceeds from exercise of stock options	179	-
Net cash provided by (used in) financing activities	<u>4,491</u>	<u>(5,222)</u>
Effect of foreign exchange rates on cash	125	70
Change in cash	(93,066)	7,554
Cash, beginning of period	94,738	88,401
Cash, end of period	<u>\$ 1,672</u>	<u>\$ 95,955</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	\$ 946	\$ 124
Cash paid for interest	\$ 284	\$ 934
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Property and equipment purchased with accounts payable	\$ 27	\$ 99

See accompanying notes to condensed consolidated financial statements.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except per share amounts)

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements of Clarus Corporation and subsidiaries (which may be referred to as the “Company,” “we,” “us” or “our”) as of and for the three and nine months ended September 30, 2017 and 2016, have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments, except otherwise disclosed) necessary for a fair presentation of the unaudited condensed consolidated financial statements have been included. The results of the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be obtained for the year ending December 31, 2017. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission (the “Commission”).

Clarus, incorporated in Delaware in 1991, acquired Black Diamond Equipment, Ltd. (which may be referred to as “Black Diamond Equipment” or “BDEL”) and Gregory Mountain Products, LLC (which may be referred to as “Gregory Mountain Products”, “Gregory” or “GMP”) in May 2010 and changed its name to Black Diamond, Inc., in January 2011. In July 2012, we acquired POC Sweden AB and its subsidiaries (collectively, “POC”) and in October 2012, we acquired PIEPS Holding GmbH and its subsidiaries (collectively, “PIEPS”).

On July 23, 2014, the Company completed the sale of certain assets to Samsonite LLC comprising Gregory Mountain Product’s business. On March 16, 2015, the Company announced that it was exploring a full range of strategic alternatives, including a sale of the entire Company and the potential sales of the Company’s Black Diamond Equipment (including PIEPS) and POC brands in two separate transactions.

On October 7, 2015, the Company sold its equity interests in POC, resulting in the conclusion of the Company’s review of strategic alternatives. On November 9, 2015, the Company announced that it was seeking to redeploy its significant cash balances to invest in high quality, durable, cash flow-producing assets in order to diversify our business and potentially monetize our substantial net operating losses as part of our asset redeployment and diversification strategy.

On August 14, 2017, the Company changed its name from Black Diamond, Inc. to Clarus Corporation and its stock ticker symbol from “BDE” to “CLAR” on the NASDAQ stock exchange. On August 21, 2017, the Company acquired Sierra Bullets, L.L.C. (“Sierra” or “Sierra Bullets”).

Nature of Business

Headquartered in Salt Lake City, Clarus Corporation is a holding company which seeks opportunities to acquire and grow businesses that can generate attractive shareholder returns. Presently, through its Outdoor Group, Clarus’ primary business is as a leading developer, manufacturer and distributor of outdoor equipment and lifestyle products focused on the climb, ski, mountain, and technical categories. The Company’s products are principally sold under the Black Diamond®, Sierra® and PIEPS® brand names through specialty and online retailers, distributors and original equipment manufacturers throughout the U.S. and internationally.

Through our Black Diamond® and PIEPS® brands, we offer a broad range of products including: high performance apparel (such as jackets, shells, pants and bibs); rock-climbing equipment (such as carabiners, protection devices, harnesses, belay devices, helmets, and ice-climbing gear); technical backpacks and high-end day packs; tents; trekking poles; headlamps and lanterns; and gloves and mittens. We also offer advanced skis, ski poles, ski skins, and snow safety products, including avalanche airbag systems, avalanche transceivers, shovels, and probes. Sierra manufactures a wide range of high performance bullets for both rifles and pistols. Sierra bullets are used for precision target shooting, hunting and military and law enforcement purposes.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The more significant estimates relate to income taxes and valuation of long-lived assets and other intangible assets. Certain costs are estimated for the full year and allocated to interim periods based on estimates of time expired, benefit received, or activity associated with the interim period. We base our estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(in thousands, except per share amounts)

Significant Accounting Policies

There have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

During the nine months ended September 30, 2017, the Company adopted Accounting Standards Update ("ASU") 2015-11, *Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value for entities that do not measure inventory using the last-in, first-out or a retail inventory method. The ASU eliminates the requirement to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The Company adopted this ASU effective on January 1, 2017, on a prospective basis which did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

The Company also adopted ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, effective January 1, 2017. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income tax consequences, forfeitures, and classification on the statement of cash flows. Prior to adopting this ASU, all excess tax benefits resulting from exercise or settlement of share-based payment transactions were recognized in Additional paid-in capital ("APIC") and accumulated in an APIC pool. Any tax deficiencies were either offset against the APIC pool, or were recognized in the income statement if no APIC pool was available. Under ASU 2016-09, all excess tax benefits and tax deficiencies are recognized as an income tax benefit or expense in the income statement prospectively. A cumulative-effect adjustment to retained earnings was recorded for tax benefits that were not previously recognized because the related tax deduction had not reduced taxes payable; however, the cumulative-effect adjustment was fully offset by an increase to the valuation allowance. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. Excess tax benefits will be recognized regardless of whether the benefit reduces taxes payable in the current period. In addition, previous guidance required entities to estimate forfeitures when computing share based compensation. Pursuant to ASU 2016-09, the Company elected to recognize forfeitures as they occur, which did not materially impact our financial statements. Prior guidance also required that excess tax benefits be presented as a cash inflow from financing activities and a cash outflow from operating activities. This ASU simplifies the presentation of excess tax benefits on the statements of cash flow requiring that excess tax benefits be classified along with other income tax cash flows as an operating activity which did not impact our condensed consolidated statements of cash flows.

Accounting Pronouncements Issued Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU 2014-09, *Revenue from Contracts with Customers* that replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model. The core principle is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. The FASB also issued ASU 2015-14, *Deferral of Effective Date* that deferred the effective date for the new guidance until the annual reporting period beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, but not before the original effective date (periods beginning after December 15, 2016). The standard permits the use of either the retrospective (restating all years presented in the Company's financial statements) or cumulative effect (recording the impact of adoption as an adjustment to retained earnings at the beginning of the year of adoption) transition method. Since its issuance, the FASB has also amended several aspects of the new guidance, including; ASU 2016-08 *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which clarifies the Topic 606 guidance on principal versus agent considerations, ASU 2016-10 *Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing* that clarifies identification of a performance obligation and address revenue recognition associated with the licensing of intellectual property, ASU 2016-12 *Revenue from Contracts with Customers (Topic 606), Narrow Scope Improvements and Practical Expedients* clarifying assessment of collectability criterion, non-cash consideration and other technical corrections and ASU 2016-20 *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* is the result of the FASB Board decision to issue a separate Update for technical corrections and improvements. The Company intends to adopt this guidance effective January 1, 2018 using the cumulative effect method. The Company has reviewed its current customer agreements and believes that all current open agreements as of September 30, 2017 will be settled prior to adoption of this guidance on January 1, 2018. The Company does not anticipate significant changes to our current revenue recognition policy resulting from adoption of the new guidance; however, we anticipate significant changes related to footnote disclosures to the consolidated financial statements as a result of the adoption of the new guidance.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(in thousands, except per share amounts)

In February 2016, the FASB issued ASU 2016-02, *Leases*, which revises the accounting related to lessor and lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset (“ROU”) for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The provisions of ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with certain practical expedients available. Early adoption is permitted. Since the effective date will not be until January 1, 2019, there is no immediate impact on the financial statements. Leases previously defined as capital leases will continue to be defined as a capital lease with no material changes to the accounting methodology; however, the Company does not have capital leases. The Company is performing an assessment of its leases and has begun preparations for implementation and retrospective application to the earliest reporting period. Under the new guidance, leases previously defined as operating leases will be defined as financing leases and capitalized if the term is greater than one year. As a result, financing leases will be recorded as an asset and a corresponding liability at the present value of the total lease payments. The asset will be decremented over the life of the lease on a pro-rata basis resulting in lease expense while the liability will be decremented using the interest method (ie. principal and interest). As such, the Company expects the new guidance will materially impact the asset and liability balances of the Company’s consolidated financial statements and related disclosures at the time of adoption. The majority of our current operating leases will expire prior to the adoption date. The Company anticipates renegotiating these operating leases; however, the terms which may exist at the adoption date are currently unknown. Consequently, the Company is unable to estimate the impact that these leases will have on the financial statements on the date of adoption. For the remaining leases with terms that go beyond the adoption date, the amounts we expect to recognize as additional liabilities and corresponding ROU assets based upon the present value of the remaining rental payments, are considered immaterial.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which clarifies the treatment of several cash flow categories. In addition, ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017 with early adoption permitted. The Company does not believe the adoption of this guidance will have a material impact on the Company’s consolidated statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This ASU is effective for fiscal years beginning January 1, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company does not believe the adoption of this guidance will have a material impact on the Company’s consolidated statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The standard simplifies the accounting for goodwill impairment by requiring a goodwill impairment to be measured using a single step impairment model, whereby the impairment equals the difference between the carrying amount and the fair value of the specified reporting units in their entirety. This eliminates the second step of the current impairment model that requires companies to first estimate the fair value of all assets in a reporting unit and measure impairments based on those fair values and a residual measurement approach. It also specifies that any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. We will adopt this standard no later than the effective date of January 1, 2020 on a prospective basis. The impact of the new standard will be dependent on the specific facts and circumstances of future individual impairments, if any.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718) Scope of Modification Accounting*, which clarifies that an entity should account for the effects of a modification unless the fair value, vesting terms and classification as liability or equity of the modified and original awards do not change on the modification date. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this update should be applied using a prospective transition method. The Company does not believe the adoption of this guidance will have a material impact on the Company’s consolidated statements and related disclosures.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(in thousands, except per share amounts)

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. This standard enables entities to better portray the economics of their risk management activities in the financial statements and enhances the transparency and understandability of hedge results through improved disclosures. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted. We intend to adopt the new guidance in the first quarter of 2019. The primary impact of adoption is the required disclosure changes. We believe that other comprehensive income could be materially impacted; however, since the majority of our current contracts will expire prior to the effective date, we cannot fully assess the financial impact of this pronouncement at this time.

NOTE 2. ACQUISITION

On August 21, 2017, the Company, through Everest/Sapphire Acquisition, LLC (“Everest/Sapphire”), a Delaware limited liability company and wholly owned subsidiary of Clarus, acquired 100% of the outstanding membership interests of Sierra Bullets, L.L.C., a manufacturer of a wide range of bullets primarily for both rifles and pistols, pursuant to the terms of the purchase and sale agreement dated August 21, 2017 (the “Purchase Agreement”), by and among Everest/Sapphire, Sierra Bullets, BHH Management, Inc., a California corporation (“BHH”), Lumber Management, Inc., a Delaware corporation (“LMI” and, together with BHH, each a “Seller” and, collectively, the “Sellers”), and BHH, in its capacity as the representative of Sellers (the “Sellers’ Representative”). Under the terms of the Purchase Agreement, Everest/Sapphire acquired Sierra for an aggregate purchase price of \$79,000, plus or minus a preliminary working capital adjustment, in accordance with and subject to the terms and conditions set forth in the Purchase Agreement.

The Company believes the acquisition of Sierra is expected to provide the Company with the following benefits:

- greater combined global revenue base;
- increased diversification and seasonal balance;
- increased gross margins, profitability and free cash flows;
- advance the development, marketing and distribution of products; and
- access to increased liquidity to further acquire and grow businesses.

The Company’s fair value estimates for the purchase price allocation are preliminary and may change during the allowable allocation period, which is up to one year from the date of the acquisition of Sierra, as we finalize the working capital adjustment and continue to obtain information that existed as of the date of acquisition so that we may finalize the allocation of the purchase price for the assets acquired and liabilities assumed and determine the associated fair values. We are currently waiting for a final valuation report as well as other information needed to finalize our purchase price allocation. The following table is a reconciliation to the fair value of the purchase consideration and how the purchase consideration is preliminarily allocated to assets acquired and liabilities assumed which have been estimated at their preliminary fair values. The excess of purchase consideration over the assets acquired and liabilities assumed is recorded as goodwill.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(in thousands, except per share amounts)

	<u>Estimated Fair Value</u>
Total Purchase Consideration	<u>\$ 79,239</u>
Assets Acquired and Liabilities Assumed	
Assets	
Cash	\$ 1
Accounts receivable	2,686
Inventories	11,674
Prepaid and other current assets	128
Property and equipment	13,206
Amortizable definite lived intangible assets	15,800
Identifiable indefinite lived intangible assets	18,900
Goodwill	18,156
Other long-term assets	15
Total Assets	<u>80,566</u>
Liabilities	
Accounts payable and accrued liabilities	1,327
Total Liabilities	<u>1,327</u>
Net Book Value Acquired	<u>\$ 79,239</u>

The gross amount of accounts receivable is \$2,732 of which \$46 is deemed to be not collectible.

In connection with the acquisition, the Company acquired exclusive rights to Sierra's trade names and trademarks, customer relationships, and product technologies. The preliminary amounts assigned to each class of intangible asset and the related preliminary weighted average amortization periods are as follows:

	Gross	Weighted Average Useful Life
Intangibles subject to amortization		
Customer relationships	\$ 12,200	15.0 years
Product technologies	2,500	10.0 years
Trade name / trademark	1,100	10.0 years
Intangibles not subject to amortization		
Trade names and trademarks	18,900	N/A
	<u>\$ 34,700</u>	<u>13.9 years</u>

The fair value of Sierra's assembled workforce and buyer-specific synergies has been included in goodwill. According to Revenue Ruling 99-6, the acquisition of a limited liability company is treated as a purchase of assets for tax purposes. As such, the basis in the assets of Sierra is equal for both book and tax, which results in no initial recognition of deferred tax assets or liabilities. Furthermore, the full amount of goodwill recorded of \$18,156 is expected to be deductible for tax purposes. No pre-existing relationship existed between Clarus and the Sellers prior to the acquisition.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Pro Forma Results

The following unaudited pro forma results of operations for the three and nine months ended September 30, 2017 and 2016 give pro forma effect as if the acquisition and borrowings used to finance the acquisition had occurred on January 1, 2016, after giving effect to certain adjustments including the amortization of intangible assets, depreciation of fixed assets, the Sellers' management fees, interest expense and taxes and assumes the purchase price was allocated to the assets purchased and liabilities assumed based on their fair market values at the date of purchase.

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Sales	\$ 48,496	\$ 47,477	\$ 138,510	\$ 133,840
Net income (loss)	\$ 32	\$ 1,217	\$ (1,379)	\$ (1,317)

The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred had the transaction been consummated as of January 1, 2016. Furthermore, such unaudited pro forma information is not necessarily indicative of future operating results of the combined companies, and should not be construed as representative of the operating results of the combined companies for any future dates or periods.

Material nonrecurring adjustments excluded from the pro forma financial information above consists of \$1,869 transaction costs and the \$2,522 step up of Sierra inventory to its preliminary fair value, which is expected to be recorded as an unfavorable adjustment to cost of goods sold during the six months following the acquisition date.

NOTE 3. DISCONTINUED OPERATIONS

As discussed above in Note 1, on October 7, 2015, the Company sold POC to Dainese. The Company received \$63,639 in cash for the POC Disposition and paid \$2,946 in transaction fees for net proceeds of \$60,693. \$739 of cash was sold as part of the transaction. Also, as of December 31, 2015, there was an unsettled working capital adjustment of \$921 owed to Dainese which was paid during the three months ended March 31, 2016. The Company recognized a pre-tax gain on such sale of \$8,436. The Company performed certain transition services related to the POC Disposition and received \$0 and \$324, during the three and nine months ended September 30, 2016, respectively, which was recorded as a reduction of selling, general and administrative expenses in our condensed consolidated financial statements for such periods.

NOTE 4. INVENTORIES

Inventories, as of September 30, 2017 and December 31, 2016, were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Finished goods	\$ 53,711	\$ 36,968
Work-in-process	5,748	1,677
Raw materials and supplies	<u>7,523</u>	<u>6,765</u>
	<u>\$ 66,982</u>	<u>\$ 45,410</u>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net as of September 30, 2017 and December 31, 2016, were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Land	\$ 3,160	\$ 2,850
Building and improvements	6,827	4,169
Furniture and fixtures	3,688	3,074
Computer hardware and software	4,758	4,519
Machinery and equipment	19,283	11,144
Construction in progress	350	522
	<u>38,066</u>	<u>26,278</u>
Less accumulated depreciation	(13,747)	(15,223)
	<u>\$ 24,319</u>	<u>\$ 11,055</u>

NOTE 6. OTHER INTANGIBLE ASSETS

Goodwill

There was an increase in goodwill during the nine months ended September 30, 2017, from \$0 to \$18,156, due to the Company's acquisition of Sierra on August 21, 2017. The following table summarizes the changes in goodwill by segment:

	<u>Black Diamond</u>	<u>Sierra</u>	<u>Total</u>
Balance at December 31, 2016	\$ -	\$ -	\$ -
Increase due to acquisition	-	18,156	18,156
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ 18,156</u>	<u>\$ 18,156</u>

Indefinite Lived Intangible Assets

The Company owns certain tradenames and trademarks which provide Black Diamond Equipment, PIEPS and Sierra with the exclusive and perpetual rights to manufacture and sell their respective products. There was an increase in tradenames and trademarks during the nine months ended September 30, 2017, due to the Company's acquisition of Sierra and the impact of foreign currency exchange rates. The following table summarizes the changes in indefinite lived intangible assets:

Balance at December 31, 2016	<u>\$ 22,541</u>
Increase due to acquisition	18,900
Impact of foreign currency exchange rates	<u>353</u>
Balance at September 30, 2017	<u>\$ 41,794</u>

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Other Intangible Assets, net

Intangible assets are amortizable over their estimated useful lives. There was an increase in gross other intangible assets subject to amortization during the nine months ended September 30, 2017 due to the Company's acquisition of Sierra and the impact of foreign currency exchange rates. The following table summarizes the changes in gross other intangible assets:

Gross balance at December 31, 2016	\$ 16,980
Increase due to acquisition	15,800
Impact of foreign currency exchange rates	510
Gross balance at September 30, 2017	\$ 33,290

Other intangible assets, net of amortization as of September 30, 2017 and December 31, 2016, were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Customer lists and relationships	\$ 26,426	\$ 13,942
Product technologies	4,817	2,091
Trade name / trademark	1,100	-
Core technologies	947	947
	<u>33,290</u>	<u>16,980</u>
Less accumulated amortization	(8,600)	(7,211)
	<u>\$ 24,690</u>	<u>\$ 9,769</u>

NOTE 7. LONG-TERM DEBT

Long-term debt, net as of September 30, 2017 and December 31, 2016, was as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Revolving credit facilities (a)	\$ 27,353	\$ -
5% Senior Subordinated Notes due 2017 (refer to Note 17)	-	22,610
Term note (b)	-	102
Unamortized discount	-	(814)
	<u>27,353</u>	<u>21,898</u>
Less current portion	-	(21,898)
	<u>\$ 27,353</u>	<u>\$ -</u>

- (a) As of September 30, 2017, the Company had drawn \$27,353 on a \$40,000 revolving credit facility with Zions First National Bank with a maturity date of August 21, 2022.

In conjunction with the acquisition of Sierra, on August 21, 2017, the Company together with its direct and indirect domestic subsidiaries entered into a third amended and restated loan agreement (the "Third Amended and Restated Loan Agreement") with Zions First National Bank, a national banking association, (the "Lender"), which matures on August 21, 2022. Under the Third Amended and Restated Loan Agreement, the Company has up to a \$40,000 revolving line of credit (the "Revolving Line of Credit") pursuant to a fourth amended and restated promissory note (revolving loan) (the "Revolving Line of Credit Promissory Note"). The maximum borrowing of \$40,000 (the "Maximum Borrowing") under the Revolving Line of Credit reduces by \$1,250 per quarter until such time as the maximum borrowing amount is \$20,000, provided, that the Company may request an increase of up to \$20,000 as an accordion option (the "Accordion") to increase the Revolving Line of Credit up to the Maximum Borrowing on a seasonal or permanent basis for funding general corporate needs including working capital, capital expenditures, permitted loans or investments in subsidiaries, and the issuance of letters of credit. Availability under the Revolving Line of Credit may not exceed \$30,000 unless the Company has sufficient eligible receivable, inventory and equipment assets at such time pursuant to formulas set forth in the Third Amended and Restated Loan Agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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All debt associated with the Third Amended and Restated Loan Agreement bears interest at one-month London Interbank Offered Rate ("LIBOR") plus an applicable margin as determined by the ratio of Total Net Debt (subject to adjustments as set forth in the Third Amended and Restated Loan Agreement) to Trailing Twelve Month Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") as follows: (i) one month LIBOR plus 4.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.75; (ii) one month LIBOR plus 3.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.00 and less than 2.75; (iii) one month LIBOR plus 2.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 1.00 and less than 2.00; and (iv) one month LIBOR plus 1.5% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is less than 1.00.

Any amount outstanding under the Third Amended and Restated Loan Agreement will be secured by a general first priority Uniform Commercial Code ("UCC") security interest in all material domestic assets of the Company and its domestic subsidiaries, including, but not limited to: accounts, accounts receivable, inventories, equipment, real property, ownership in subsidiaries, and intangibles including patents, trademarks and copyrights. Proceeds of the foregoing will be secured via pledge and control agreements on domestic depository and investment accounts not held with the Lender.

The Third Amended and Restated Loan Agreement contains certain financial covenants including restrictive debt covenants that require the Company and its subsidiaries to maintain a minimum fixed charge coverage ratio, a maximum total leverage ratio, a minimum net worth, a positive amount of asset coverage and limitations on capital expenditures, all as calculated in the Third Amended and Restated Loan Agreement.

In addition, the Third Amended and Restated Loan Agreement contains covenants restricting the Company and its subsidiaries from pledging or encumbering their assets, with certain exceptions, and from engaging in acquisitions other than acquisitions permitted by the Third Amended and Restated Loan Agreement. The Third Amended and Restated Loan Agreement contains customary events of default (with grace periods where customary) including, among other things, failure to pay any principal or interest when due; any materially false or misleading representation, warranty, or financial statement; failure to comply with or to perform any provision of the Third and Restated Loan Agreement; and default on any debt or agreement in excess of certain amounts.

- (b) The term note was payable to a government entity with an interest rate of 0.75% and no monthly installments. During the nine months ended September 30, 2017, the entire principal amount and all accrued interest were paid in full.

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's primary exchange rate risk management objective is to mitigate the uncertainty of anticipated cash flows attributable to changes in foreign currency exchange rates. The Company primarily focuses on mitigating changes in cash flows resulting from sales denominated in currencies other than the U.S. dollar. The Company manages this risk primarily by using currency forward and option contracts. If the anticipated transactions are deemed probable, the resulting relationships are formally designated as cash flow hedges. The Company accounts for these contracts as cash flow hedges and tests effectiveness by determining whether changes in the expected cash flow of the derivative offset, within a range, changes in the expected cash flow of the hedged item.

At September 30, 2017, the Company's derivative contracts had a remaining maturity of one and one-half years or less. The counterparty to these transactions had both long-term and short-term investment grade credit ratings. The maximum net exposure of the Company's credit risk to the counterparty is generally limited to the aggregate unrealized loss of all contracts with that counterparty, which is \$1,353 as of September 30, 2017. The Company's exposure of counterparty credit risk is limited to the aggregate unrealized gain on all contracts. At September 30, 2017, there was no such exposure to the counterparty. The Company's derivative counterparty has strong credit ratings and as a result, the Company does not require collateral to facilitate transactions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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The Company held the following contracts designated as hedged instruments as of September 30, 2017 and December 31, 2016:

	September 30, 2017	
	Notional Amount	Latest Maturity
Foreign exchange contracts - Norwegian Kroner	7,449	February 2018
Foreign exchange contracts - Canadian Dollars	13,345	February 2019
Foreign exchange contracts - British Pounds	2,343	February 2019
Foreign exchange contracts - Euros	22,200	February 2019

	December 31, 2016	
	Notional Amount	Latest Maturity
Foreign exchange contracts - Canadian Dollars	11,001	February 2018
Foreign exchange contracts - British Pounds	1,842	February 2018
Foreign exchange contracts - Euros	14,366	February 2018

For contracts that qualify as effective hedge instruments, the effective portion of gains and losses resulting from changes in fair value of the instruments are included in accumulated other comprehensive loss and reclassified to sales in the period the underlying hedged transaction is recognized in earnings. Losses of \$(422) and \$(152) were reclassified to sales during the three months ended September 30, 2017 and 2016, respectively, and \$(36) and \$(495) were reclassified to sales during the nine months ended September 30, 2017 and 2016, respectively.

The Company records ineffectiveness of hedged instruments resulting from changes in fair value of the instruments in earnings. There were no gains (losses) recorded to Other, net, during the three and nine months ended September 30, 2017. Gains (losses) of \$34 and \$(8) were recorded to Other, net, associated with ineffective hedge instruments during the three and nine months ended September 30, 2016.

The following table presents the balance sheet classification and fair value of derivative instruments as of September 30, 2017 and December 31, 2016:

	Classification	September 30, 2017	December 31, 2016
Derivative instruments in asset positions:			
Forward exchange contracts	Prepaid and other current assets	\$ 69	\$ 1,165
Forward exchange contracts	Other long-term assets	\$ 12	\$ 116
Derivative instruments in liability positions:			
Forward exchange contracts	Accounts payable and accrued liabilities	\$ 1,284	\$ -
Forward exchange contracts	Other long-term liabilities	\$ 150	\$ -

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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NOTE 9. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive (loss) income ("AOCI") primarily consists of foreign currency translation adjustments and changes in our forward foreign exchange contracts. The components of AOCI, net of tax, were as follows:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of December 31, 2016	\$ (1,729)	\$ 724	\$ (1,005)
Other comprehensive income (loss) before reclassifications	2,454	(2,177)	277
Amounts reclassified from other comprehensive income (loss)	(149)	380	231
Net current period other comprehensive income (loss)	2,305	(1,797)	508
Balance as of September 30, 2017	<u>\$ 576</u>	<u>\$ (1,073)</u>	<u>\$ (497)</u>

The effects on net loss of amounts reclassified from unrealized gains (losses) on cash flow hedges for foreign exchange contracts and foreign currency translation adjustments for the three and nine months ended September 30, 2017, were as follows:

Affected line item in the Condensed Consolidated Statement of Comprehensive Loss	Gains (losses) reclassified from AOCI to the Condensed Consolidated Statement of Comprehensive Loss	
	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Foreign exchange contracts:		
Sales	\$ (422)	\$ (36)
Less: Income tax expense	109	344
Amount reclassified, net of tax	<u>\$ (531)</u>	<u>\$ (380)</u>
Foreign currency translation adjustments:		
Other, net	<u>\$ 68</u>	<u>\$ 149</u>
Total reclassifications from AOCI	<u>\$ (463)</u>	<u>\$ (231)</u>

The Company's policy is to classify reclassifications of cumulative foreign currency translation from AOCI to Other, net.

NOTE 10. FAIR VALUE MEASUREMENTS

We measure certain financial assets and liabilities at fair value on a recurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, under a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1- inputs to the valuation methodology are quoted market prices for identical assets or liabilities in active markets.

Level 2- inputs to the valuation methodology include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3- inputs to the valuation methodology are based on prices or valuation techniques that are unobservable.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Assets and liabilities measured at fair value on a recurring basis at September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Forward exchange contracts	-	81	-	81
	<u>\$ -</u>	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 81</u>
Liabilities				
Forward exchange contracts	\$ -	\$ 1,434	\$ -	\$ 1,434
	<u>\$ -</u>	<u>\$ 1,434</u>	<u>\$ -</u>	<u>\$ 1,434</u>
December 31, 2016				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Forward exchange contracts	\$ -	\$ 1,281	\$ -	\$ 1,281
	<u>\$ -</u>	<u>\$ 1,281</u>	<u>\$ -</u>	<u>\$ 1,281</u>
Liabilities				
Forward exchange contracts	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature and liquidity of these financial instruments. Derivative financial instruments are recorded at fair value based on current market pricing models. No nonrecurring fair value measurements existed at September 30, 2017 and December 31, 2016.

NOTE 11. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing earnings (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per share is computed by dividing earnings (loss) by the total of the weighted average number of shares of common stock outstanding during each period, plus the effect of dilutive outstanding stock options and unvested restricted stock grants. Potentially dilutive securities are excluded from the computation of diluted earnings per share if their effect is anti-dilutive due to net loss.

The following table is a reconciliation of basic and diluted shares of common stock outstanding used in the calculation of earnings (loss) per share:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Weighted average shares outstanding - basic	30,017	30,063	30,015	30,525
Effect of dilutive stock awards	-	-	-	-
Weighted average shares outstanding - diluted	<u>30,017</u>	<u>30,063</u>	<u>30,015</u>	<u>30,525</u>
Net loss per share:				
Basic	\$ (0.05)	\$ (0.01)	\$ (0.22)	\$ (0.25)
Diluted	(0.05)	(0.01)	(0.22)	(0.25)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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For the three months ended September 30, 2017 and 2016, equity awards of 2,835 and 2,517, respectively, and for the nine months ended September 30, 2017 and 2016, equity awards of 2,793 and 2,491, respectively, were outstanding and anti-dilutive and therefore not included in the calculation of loss per share for these periods.

NOTE 12. STOCK-BASED COMPENSATION PLAN

Under the Company's current 2015 Stock Incentive Plan (the "2015 Plan"), the Company's Board of Directors (the "Board of Directors") has flexibility to determine the type and amount of awards to be granted to eligible participants, who must be employees, directors, officers or consultants of the Company or its subsidiaries. The 2015 Plan allows for grants of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, and restricted units. The aggregate number of shares of common stock that may be granted through awards under the 2015 Plan to any employee in any calendar year may not exceed 500 shares. The 2015 Plan will continue in effect until December 2025 unless terminated sooner.

During the nine months ended September 30, 2017, the Company issued stock options for an aggregate of 463 shares under the 2015 Plan to directors and employees of the Company. Of the 463 options issued, 38 options vest in four equal consecutive quarterly tranches from the date of grant. 325 vest in three equal tranches on December 31, 2017, December 31, 2018 and December 31, 2019. The remaining 100 options vested immediately.

For computing the fair value of the stock-based awards, the fair value of each option grant has been estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Options Granted During the Nine Months Ended September 30, 2017

Number of options	363	100
Option vesting period	1-2 Years	Immediate
Grant price	\$6.10 - \$6.15	\$6.10
Dividend yield	0.00%	0.00%
Expected volatility (a)	41.9% - 42.2%	46.90%
Risk-free interest rate	1.80%	1.41%
Expected life (years) (b)	5.31 - 5.33	2.75
Weighted average fair value	\$2.45 - \$2.49	\$1.20

(a) Expected volatility is based upon the Company's historical volatility.

(b) Because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for these grants, the Company utilized the simplified method in developing an estimate of the expected term of these options.

On June 1, 2017, the Company issued and granted to an employee a restricted stock award of 500 restricted shares under the 2015 Plan, of which (i) 250 restricted shares will vest if, on or before June 1, 2022, the Fair Market Value (as defined in the Plan) of the Company's common stock shall have equaled or exceeded \$10.00 per share for twenty consecutive trading days; and (ii) 250 restricted shares will vest if, on or before June 1, 2022, the Fair Market Value (as defined in the Plan) of the Company's common stock shall have equaled or exceeded \$12.00 per share for twenty consecutive trading days. For computing the fair value of the 500 restricted shares with a market condition, the fair value of each restricted stock award grant has been estimated as of the date of grant using the Monte-Carlo pricing model with the assumptions below.

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Market Condition Restricted Shares Granted on June 1, 2017

Number issued	250	250
Vesting period	\$10.00 stock price target	\$12.00 stock price target
Grant price	\$6.10	\$6.10
Dividend yield	0.0%	0.0%
Expected volatility	42.4%	42.4%
Risk-free interest rate	1.76%	1.76%
Weighted average fair value	\$4.30	\$3.68

The total non-cash stock compensation expense related to restricted stock, stock options and stock awards recorded by the Company for the three months ended September 30, 2017 and 2016 was \$387 and \$42, respectively, and for the nine months ended September 30, 2017 and 2016 was \$729 and \$193, respectively. For the three and nine months ended September 30, 2017 and 2016, the majority of stock-based compensation costs were classified as selling, general and administrative expense. The fair value of unvested restricted stock awards is determined based on the market price of our shares of common stock on the grant date or using the Monte-Carlo pricing model.

As of September 30, 2017, there were 533 unvested stock options and unrecognized compensation cost of \$1,153 related to unvested stock options, as well as 850 unvested restricted stock awards and unrecognized compensation cost of \$1,679 related to unvested restricted stock awards.

NOTE 13. RESTRUCTURING

The Company initiated a restructuring plan in the fourth quarter of 2014 ("2014 Restructuring Plan") to realign resources within the organization and completed the plan during the year ended December 31, 2016. During the three and nine months ended September 30, 2016, we incurred restructuring charges of \$0 and \$20 related to the 2014 Restructuring Plan. We incurred \$5,959 of cumulative restructuring charges in connection with the 2014 Restructuring Plan.

As part of the conclusion of the Company's review of strategic alternatives, the Company initiated restructuring activities in efforts to further realign resources within the organization ("2015 Restructuring Plan") and anticipates completing the plan in 2017. During the three months ended September 30, 2017 and 2016, we incurred restructuring charges of \$33 and \$282, respectively, related to the 2015 Restructuring Plan. During the nine months ended September 30, 2017 and 2016, we incurred restructuring charges of \$116 and \$1,255, respectively, related to the 2015 Restructuring Plan. We incurred \$2,500 of cumulative restructuring charges in connection with the 2015 Restructuring Plan. We estimate that we will incur an immaterial amount of restructuring charges related to the 2015 Restructuring Plan during the remainder of 2017.

The following table summarizes the restructuring charges, payments and the remaining accrual related to employee termination costs and facility exit costs.

	2015 Restructuring Plan
Balance at December 31, 2016	\$ 96
Charges to expense:	
Other costs	116
Total restructuring charges	116
Cash payments and non-cash charges:	
Cash payments	(132)
Balance at September 30, 2017	<u>\$ 80</u>

As of September 30, 2017, termination costs and restructuring costs remained in accrued liabilities and are expected to be paid during the remainder of 2017.

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NOTE 14. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal disputes and other legal proceedings that arise from time to time in the ordinary course of business. Based on currently available information, the Company does not believe that it is reasonably possible that the disposition of any of the legal disputes the Company or its subsidiaries is currently involved in will have a material adverse effect upon the Company's consolidated financial condition, results of operations or cash flows. There is a reasonable possibility of loss from contingencies in excess of the amounts accrued by the Company in the accompanying condensed consolidated balance sheets; however, the actual amounts of such possible losses cannot currently be reasonably estimated by the Company at this time. It is possible that, as additional information becomes available, the impact on the Company could have a different effect.

During the nine months ended September 30, 2016, the Company received an arbitral award on agreed terms of \$1,967, related to certain claims against the former owner of PIEPS associated with the voluntary recall of all of the PIEPS VECTOR avalanche transceivers during the year ended December 31, 2013. This award concluded the arbitration process in its entirety.

The Company leases office, warehouse and distribution space under non-cancelable operating leases. As leases expire, it can be expected that, in the normal course of business, certain leases will be renewed or replaced. Certain lease agreements include escalating rents over the lease terms. The Company expenses rent on a straight-line basis over the lease term which commences on the date the Company has the right to control the property. The cumulative expense recognized on a straight-line basis in excess of the cumulative payments is included in accounts payable and accrued liabilities and other long-term liabilities in the accompanying condensed consolidated balance sheets.

Total rent expense of the Company for the three months ended September 30, 2017 and 2016 was \$214 and \$204, respectively, and for the nine months ended September 30, 2017 and 2016 was \$611 and \$826, respectively.

NOTE 15. INCOME TAXES

The Company's foreign operations that are considered to be permanently reinvested have statutory tax rates of 25%.

Tax expense includes a discrete charge for the three months ended September 30, 2017 and 2016 of \$0 and \$520, respectively, and for the nine months ended September 30, 2017 and 2016 of \$20 and \$953, respectively, of additional interest for an uncertain tax position and potential tax audit liability associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China. During the nine months ended September 30, 2017, the Company settled and paid the Chinese tax audit liability in the amount of \$939.

There was also a discrete charge of \$109 and \$344 during the three and nine months ended September 30, 2017, respectively, associated with a disproportionate tax effect released from AOCI. During the nine months ended September 30, 2016, there was a discrete charge for a Swiss withholding tax related to the transferring of Black Diamond Equipment's European operations from Basel, Switzerland to Innsbruck, Austria.

During the three months ended September 30, 2017, the Company repatriated approximately \$10,800 from its Swedish subsidiary, Ember Scandinavia AB to help fund the acquisition of Sierra. Income taxes were previously accrued and a deferred tax liability recorded in fiscal year 2015. With the dividend, the Company will have taxable income which is subject to the Federal Alternative Minimum Tax ("AMT"), therefore the Company recorded a discrete expense of \$211.

With the acquisition of Sierra during the three months ended September 30, 2017, the company recognized a discrete expense of \$101 for the tax amortization of indefinite lived intangibles and goodwill, and an increase to the deferred tax liabilities which are not a source of future taxable income of \$101.

As of December 31, 2016, the Company's gross deferred tax asset was \$75,416. The Company had recorded a valuation allowance of \$67,662, resulting in a net deferred tax asset of \$7,754, before deferred tax liabilities of \$16,720. The Company has provided a valuation allowance against a portion of the deferred tax assets as of December 31, 2016, because the ultimate realization of those assets did not meet the more likely than not criteria. The majority of the Company's deferred tax assets consist of net operating loss carryforwards for federal tax purposes. If a change in control were to occur, these could be limited under Section 382 of the Internal Revenue Code of 1986 ("Code"), as amended.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(in thousands, except per share amounts)

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating loss and credit carryforwards expire. The estimates and judgments associated with the Company's valuation allowance on deferred tax assets are considered critical due to the amount of deferred tax assets recorded by the Company on its consolidated balance sheet and the judgment required in determining the Company's future taxable income. The need for a valuation allowance is reassessed at each interim reporting period.

As of December 31, 2016, the Company had net operating loss, research and experimentation credit and alternative minimum tax credit carryforwards for U.S. federal income tax purposes of \$172,419 (\$270 relates to excess tax benefits related to share based payment compensation), \$3,407 and \$315, respectively. The Company believes its U.S. Federal net operating loss ("NOL") will substantially offset its future U.S. Federal income taxes, excluding the amount subject to U.S. Federal Alternative Minimum Tax ("AMT"). AMT is calculated as 20% of AMT income. For purposes of AMT, a maximum of 90% of income is offset by available NOLs. The majority of the Company's pre-tax income is currently earned and expected to be earned in the U.S., or taxed in the U.S. as Subpart F income and will be offset with the NOL.

NOLs available to offset taxable income, subject to compliance with Section 382 of the Code, begin to expire based upon the following schedule:

Net Operating Loss Carryforward Expiration Dates
December 31, 2016

Expiration Dates December 31,	Net Operating Loss Amount
2021	\$ 32,408
2022	115,000
2023	5,712
2024	3,566
2025 and beyond	15,733
Total	172,419
Excess stock based payment tax deductions	(270)
After limitations	<u>\$ 172,149</u>

NOTE 16. SEGMENT INFORMATION

As a result of our August 21, 2017 acquisition of Sierra, we now operate our business structure within two segments which are grouped into what we refer to as the Outdoor Group. These segments are defined based on the internal financial reporting used by management. Certain significant selling and general and administrative expenses are not allocated to the segments. Each segment is described below:

- Black Diamond segment, which includes Black Diamond Equipment and PIEPS, is a global leader in designing, manufacturing, and marketing innovative outdoor engineered equipment and apparel for climbing, mountaineering, backpacking, skiing, and a wide range of other year-round outdoor recreation activities. Black Diamond segment offers a broad range of products including: high performance apparel (such as jackets, shells, pants and bibs); rock-climbing equipment (such as carabiners, protection devices, harnesses, belay devices, helmets, and ice-climbing gear); technical backpacks and high-end day packs; tents; trekking poles; headlamps and lanterns; and gloves and mittens. It also offers advanced skis, ski poles, ski skins, and snow safety products, including avalanche airbag systems, avalanche transceivers, shovels, and probes.
- Sierra segment, which includes Sierra, is an American manufacturer of bullets intended for firearms. Sierra segment manufactures a wide range of high performance bullets for both rifles and pistols. These bullets are used for precision target shooting, hunting and military and law enforcement purposes.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(in thousands, except per share amounts)

Financial information for our segments is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Sales to external customers:				
Black Diamond	\$ 42,242	\$ 39,441	\$ 114,478	\$ 106,790
Sierra	3,532	-	3,532	-
Sales to external customers	<u>\$ 45,774</u>	<u>\$ 39,441</u>	<u>\$ 118,010</u>	<u>\$ 106,790</u>
Segment operating income (expense):				
Black Diamond	\$ 2,085	\$ 1,821	\$ 1,098	\$ (225)
Sierra	416	-	416	-
Segment operating income (expense)	<u>2,501</u>	<u>1,821</u>	<u>1,514</u>	<u>(225)</u>
Restructuring charge	(33)	(282)	(116)	(1,275)
Transaction costs	(1,869)	-	(1,869)	(269)
Corporate and other expenses	(1,435)	(546)	(4,283)	(2,658)
Interest expense, net	(71)	(719)	(948)	(2,142)
(Loss) income before income tax	<u>\$ (907)</u>	<u>\$ 274</u>	<u>\$ (5,702)</u>	<u>\$ (6,569)</u>

There were no intercompany sales between the Black Diamond and Sierra segments for the periods presented. Restructuring charges for the periods presented relate to the Black Diamond segment.

On August 21, 2017, the Company purchased Sierra. Total preliminary assets of Sierra as of August 21, 2017 were \$80,566. Depreciation and amortization by segment is as follows.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Outdoor group depreciation:				
Black Diamond	\$ 569	\$ 529	\$ 1,674	\$ 1,705
Sierra	156	-	156	-
Total outdoor group depreciation	<u>\$ 725</u>	<u>\$ 529</u>	<u>\$ 1,830</u>	<u>\$ 1,705</u>
Outdoor group amortization:				
Black Diamond	\$ 273	\$ 269	\$ 808	\$ 808
Sierra	375	-	375	-
Total outdoor group amortization	<u>\$ 648</u>	<u>\$ 269</u>	<u>\$ 1,183</u>	<u>\$ 808</u>

NOTE 17. RELATED PARTY TRANSACTIONS

5% Unsecured Subordinated Notes due May 28, 2017

As part of the consideration payable to the stockholders of Gregory when the Company acquired Gregory, the Company issued \$14,517, \$7,539, and \$554 in 5% Unsecured Subordinated Notes due May 28, 2017 (the "Merger Consideration Subordinated Notes") to Kanders GMP Holdings, LLC, Schiller Gregory Investment Company, LLC, and five former employees of Gregory, respectively. Mr. Warren B. Kanders, the Company's Executive Chairman and a member of its Board of Directors, is a majority member and a trustee of the manager of Kanders GMP Holdings, LLC. The sole manager of Schiller Gregory Investment Company, LLC is Mr. Robert R. Schiller, the Company's former Executive Vice Chairman and former member of its Board of Directors. The principal terms of the Merger Consideration Subordinated Notes was as follows: (i) the principal amount was due and payable on May 28, 2017 and was prepayable by the Company at any time; (ii) interest accrued on the principal amount at the rate of 5% per annum and was payable quarterly in cash; (iii) the default interest rate accrued at the rate of 10% per annum during the occurrence of an event of default; and (iv) events of default, which can only be triggered with the consent of Kanders GMP Holdings, LLC, were: (a) the default by the Company on any payment due under a Merger Consideration Subordinated Note; (b) the Company's failure to perform or observe any other material covenant or agreement contained in the Merger Consideration Subordinated Notes; or (c) the Company's instituting or becoming subject to a proceeding under the Bankruptcy Code (as defined in the Merger Consideration Subordinated Notes). The Merger Consideration Subordinated Notes were junior to all senior indebtedness of the Company, except that payments of interest continue to be made under the Merger Consideration Subordinated Notes as long as no event of default exists under any senior indebtedness.

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(in thousands, except per share amounts)

Given the below market interest rate for comparably secured notes and the relative illiquidity of the Merger Consideration Subordinated Notes, we discounted the notes to \$8,640, \$4,487 and \$316, respectively, at the date of acquisition. We were accreting the discount on the Merger Consideration Subordinated Notes to interest expense using the effective interest method over the term of the Merger Consideration Subordinated Notes. The effective interest rate was approximately 14%.

On April 7, 2011, Schiller Gregory Investment Company, LLC transferred its Merger Consideration Subordinated Note in equal amounts to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust. On June 24, 2013, the Robert R. Schiller Cornerstone Trust dated September 9, 2010 transferred its Merger Consideration Subordinated Note in the amount of \$3,769 to the Robert R. Schiller 2013 Cornerstone Trust dated June 24, 2013. During the three and nine months ended September 30, 2017, \$0 and \$89 in interest, respectively, was paid to Kanders GMP Holdings, LLC, and \$0 and \$46 in interest, respectively, was paid to the Robert R. Schiller 2013 Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust pursuant to the outstanding Merger Consideration Subordinated Notes.

On May 29, 2012 and August 13, 2012, five former employees of Gregory exercised certain sales rights and sold Merger Consideration Subordinated Notes in the aggregate principal amount of approximately \$365 to Kanders GMP Holdings, LLC and in the aggregate principal amount of approximately \$189 to Schiller Gregory Investment Company, LLC. During the three and nine months ended September 30, 2017, \$0 and \$2 in interest, respectively, was paid to Kanders GMP Holdings, LLC, and \$0 and \$1 in interest, respectively, was paid to Schiller Gregory Investment Company, LLC, pursuant to these outstanding Merger Consideration Subordinated Notes.

In February 2017, the Board of Directors approved the repayment of the Merger Consideration Subordinated Notes. On February 13, 2017, the entire principal amounts and all accrued interest amounts were paid in full. The note discount as of December 31, 2016 of \$814 was expensed and recognized as interest expense during the three months ended March 31, 2017.

Upon the Company's acquisition of Sierra, on August 21, 2017, the Company paid a fee in the amount of \$1,000 to Kanders & Company, Inc. ("Kanders & Company"), which is included in transaction costs, in consideration of the significant support received by the Company from Kanders & Company in sourcing, structuring, performing due diligence and negotiating the acquisition. Mr. Warren B. Kanders, the Company's Executive Chairman of the Board of Directors and a member of its Board of Directors, is the sole stockholder of Kanders & Company.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Please note that in this Quarterly Report on Form 10-Q we may use words such as “appears,” “anticipates,” “believes,” “plans,” “expects,” “intends,” “future” and similar expressions which constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are made based on our expectations and beliefs concerning future events impacting the Company and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Potential risks and uncertainties that could cause the actual results of operations or financial condition of the Company to differ materially from those expressed or implied by forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, the overall level of consumer spending on our products; general economic conditions and other factors affecting consumer confidence; disruption and volatility in the global capital and credit markets; the financial strength of the Company’s customers; the Company’s ability to implement its growth strategy, including its ability to organically grow each of its historical product lines; the ability of the Company to identify potential acquisition or investment opportunities as part of its redeployment and diversification strategy; the Company’s ability to successfully redeploy its capital into diversifying assets or that any such redeployment will result in the Company’s future profitability; the Company’s ability to successfully integrate Sierra Bullets L.L.C.; the Company’s exposure to product liability of product warranty claims and other loss contingencies; stability of the Company’s manufacturing facilities and foreign suppliers; the Company’s ability to protect trademarks, patents and other intellectual property rights; fluctuations in the price, availability and quality of raw materials and contracted products as well as foreign currency fluctuations; our ability to utilize our net operating loss carryforwards; and legal, regulatory, political and economic risks in international markets. More information on potential factors that could affect the Company’s financial results is included from time to time in the Company’s public reports filed with the Securities and Exchange Commission, including the Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. All forward-looking statements included in this Quarterly Report on Form 10-Q are based upon information available to the Company as of the date of this Quarterly Report on Form 10-Q, and speak only as of the date hereof. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

Overview

Clarus (which may be referred to as the “Company,” “we,” “our” or “us”) is a holding company which seeks opportunities to acquire and grow businesses that can generate attractive shareholder returns. Presently, through its Outdoor Group, Clarus’ primary business is as a leading developer, manufacturer and distributor of outdoor equipment and lifestyle products focused on the climb, ski, mountain, and technical categories. The Company’s products are principally sold under the Black Diamond®, Sierra® and PIEPS® brand names through specialty and online retailers, distributors and original equipment manufacturers throughout the U.S. and internationally.

Through our Black Diamond® and PIEPS® brands, we offer a broad range of products including: high performance apparel (such as jackets, shells, pants and bibs); rock-climbing equipment (such as carabiners, protection devices, harnesses, belay devices, helmets, and ice-climbing gear); technical backpacks and high-end day packs; tents; trekking poles; headlamps and lanterns; and gloves and mittens. We also offer advanced skis, ski poles, ski skins, and snow safety products, including avalanche airbag systems, avalanche transceivers, shovels, and probes. Sierra manufactures a wide range of high performance bullets for both rifles and pistols. Sierra bullets are used for precision target shooting, hunting and military and law enforcement purposes.

Clarus Corporation, incorporated in Delaware in 1991, acquired Black Diamond Equipment, Ltd. (which may be referred to as “Black Diamond Equipment” or “BDEL”) and Gregory Mountain Products, LLC (which may be referred to as “Gregory Mountain Products”, “Gregory” or “GMP”) in May 2010 and changed its name to Black Diamond, Inc., in January 2011. In July 2012, we acquired POC Sweden AB and its subsidiaries (collectively, “POC”) and in October 2012, we acquired PIEPS Holding GmbH and its subsidiaries (collectively, “PIEPS”).

On July 23, 2014, the Company completed the sale of certain assets to Samsonite LLC comprising Gregory Mountain Product’s business. On March 16, 2015, the Company announced that it was exploring a full range of strategic alternatives, including a sale of the entire Company and the potential sales of the Company’s Black Diamond Equipment (including PIEPS) and POC brands in two separate transactions.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

On October 7, 2015, the Company sold its equity interests in POC, resulting in the conclusion of the Company's review of strategic alternatives. On November 9, 2015, the Company announced that it was seeking to redeploy its significant cash balances to invest in high quality, durable, cash flow-producing assets in order to diversify our business and potentially monetize our substantial net operating losses as part of our asset redeployment and diversification strategy.

On August 14, 2017, the Company changed its name from Black Diamond, Inc. to Clarus Corporation and its stock ticker symbol from "BDE" to "CLAR" on the NASDAQ stock exchange. On August 21, 2017, the Company acquired Sierra Bullets, L.L.C. ("Sierra" or "Sierra Bullets").

Clarus, as a holding company, is seeking opportunities to acquire and grow businesses that can generate attractive shareholder returns. The Company has substantial net operating tax loss carryforwards which it is seeking to redeploy to maximize shareholder value in a diverse array of businesses.

Critical Accounting Policies and Use of Estimates

Management's discussion of our financial condition and results of operations is based on the condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of the condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. We continually evaluate our estimates and assumptions including those related to derivatives, revenue recognition, income taxes and valuation of long-lived assets and other intangible assets. We base our estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

There have been no significant changes to our critical accounting policies, with the exception to the policy below, as described in our Annual Report on Form 10-K for the year ended December 31, 2016.

Business Combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill.

Accounting Pronouncements Issued Not Yet Adopted

See "Recent Accounting Pronouncements" in Note 1 to the notes to the unaudited condensed consolidated financial statements.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

Results of Operations

Condensed Consolidated Three Months Ended September 30, 2017 Compared to Condensed Consolidated Three Months Ended September 30, 2016

The following presents a discussion of condensed consolidated operations for the three months ended September 30, 2017, compared with the condensed consolidated three months ended September 30, 2016.

	Three Months Ended	
	September 30, 2017	September 30, 2016
Sales		
Domestic sales	\$ 21,141	\$ 17,939
International sales	24,633	21,502
Total sales	45,774	39,441
Cost of goods sold	30,490	27,105
Gross profit	15,284	12,336
Operating expenses		
Selling, general and administrative	14,431	11,483
Restructuring charge	33	282
Transaction costs	1,869	-
Total operating expenses	16,333	11,765
Operating (loss) income	(1,049)	571
Other income (expense)		
Interest expense, net	(71)	(719)
Other, net	213	422
Total other income (expense), net	142	(297)
(Loss) income before income tax	(907)	274
Income tax expense	676	679
Net loss	\$ (1,583)	\$ (405)

Sales

Consolidated sales increased \$6,333, or 16.1%, to \$45,774 during the three months ended September 30, 2017, compared to consolidated sales of \$39,441 during the three months ended September 30, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed \$3,532 in sales during the three months ended September 30, 2017. The remaining increase was attributable to the increase in the quantity of new and existing climb, mountain, and ski products sold during the period and an increase in sales of \$690 due to the strengthening of foreign currencies against the U.S. dollar during the three months ended September 30, 2017 compared to the prior period.

Consolidated domestic sales increased \$3,202, or 17.8%, to \$21,141 during the three months ended September 30, 2017, compared to consolidated domestic sales of \$17,939 during the three months ended September 30, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed \$2,301 in sales during the three months ended September 30, 2017. The remaining increase in domestic sales was attributable to the increase in the quantity of new and existing climb and ski products sold during the period.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

Consolidated international sales increased \$3,131, or 14.6%, to \$24,633 during the three months ended September 30, 2017, compared to consolidated international sales of \$21,502 during the three months ended September 30, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed \$1,231 in sales during the three months ended September 30, 2017. The remaining increase in international sales was attributable to the increase in the quantity of new and existing climb, mountain, and ski products sold during the period and an increase in sales of \$690 due to the strengthening of foreign currencies against the U.S. dollar during the three months ended September 30, 2017 compared to the prior period.

Cost of Goods Sold

Consolidated cost of goods sold increased \$3,385, or 12.5%, to \$30,490 during the three months ended September 30, 2017, compared to consolidated cost of goods sold of \$27,105 during the three months ended September 30, 2016. The increase in cost of goods sold was partially attributable to the inclusion of Sierra of \$2,484, which included \$420 related to the sale of inventory that was recorded at fair value in purchase accounting. The remaining amount of inventory that was recorded at fair value in purchase accounting, which totals \$2,102, is expected to be sold during the fourth quarter of 2017 and first quarter of 2018. The remaining increase was attributable to an increase in the number of units sold and the mix of higher cost products sold.

Gross Profit

Consolidated gross profit increased \$2,948, or 23.9%, to \$15,284 during the three months ended September 30, 2017, compared to consolidated gross profit of \$12,336 during the three months ended September 30, 2016. Consolidated gross margin was 33.4% during the three months ended September 30, 2017, compared to a consolidated gross margin of 31.3% during the three months ended September 30, 2016. Consolidated gross margin during the three months ended September 30, 2017, increased compared to the prior year due to a favorable product mix in higher margin products and channel distribution, as well as lower costs related to the Company's manufacturing activities that were transferred from China to the United States. Gross margin also benefited from the inclusion of Sierra; however, this benefit was offset by a decrease in gross margin of 0.9% due to the sale of inventory that was recorded at its preliminary fair value in purchase accounting.

Selling, General and Administrative

Consolidated selling, general, and administrative expenses increased \$2,948, or 25.7%, to \$14,431 during the three months ended September 30, 2017, compared to consolidated selling, general and administrative expenses of \$11,483 during the three months ended September 30, 2016. The increase in selling, general and administrative expenses was partially attributable to the inclusion of Sierra of \$632, with the remaining increase being attributable to the Company's investment in the brand related activities of sales, marketing and research and development in supporting its strategic initiatives around new product introduction and increasing brand equity. Stock compensation also increased \$345 during the three months ended September 30, 2017 compared to the prior year.

Restructuring Charges

Consolidated restructuring expense decreased \$249, or 88.3%, to \$33 during the three months ended September 30, 2017, compared to consolidated restructuring expense of \$282 during the three months ended September 30, 2016. Restructuring expenses incurred during the three months ended September 30, 2017, related to costs associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China.

Transaction Costs

Consolidated transaction expense increased to \$1,869 during the three months ended September 30, 2017, compared to consolidated transaction costs of \$0 during the three months ended September 30, 2016, which consisted of expenses related to the Company's acquisition of Sierra.

Interest Expense, net

Consolidated interest expense, net decreased \$648, or 90.1%, to \$71 during the three months ended September 30, 2017, compared to consolidated interest expense, net, of \$719 during the three months ended September 30, 2016. Interest expense recognized during the three months ended September 30, 2016 was primarily attributable to the Company's 5% Senior Subordinated Notes which were repaid during the three months ended March 31, 2017.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

Other, net

Consolidated other, net, decreased \$209, or 49.5%, to income of \$213 during the three months ended September 30, 2017, compared to consolidated other, net income of \$422 during the three months ended September 30, 2016. The decrease in other, net, was primarily attributable to losses on mark-to-market adjustments on non-hedged foreign currency contracts and the absence of gains related to the sale of marketable securities during the three months ended September 30, 2017. These decreases were partially offset by an increase in remeasurement gains recognized on the Company's foreign denominated accounts receivable and accounts payable and gains related to recognition of cumulative translation adjustments due to the substantial liquidation of a foreign entity.

Income Taxes

Consolidated income tax expense decreased \$3, or 0.4%, to \$676 during the three months ended September 30, 2017, compared to a consolidated income tax expense of \$679 during the same period in 2016. The tax expense recorded during the three months ended September 30, 2017 includes discrete charges associated with a disproportionate tax effect released from accumulated other comprehensive loss of \$109, an Alternative Minimum Tax related to the Ember dividend of \$211, and Sierra amortization of indefinite lived intangibles and goodwill of \$101. The tax expense recorded during the three months ended September 30, 2016 includes a discrete charge for a potential tax liability related to a tax audit associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China. The audit was formally closed during the three months ended September 30, 2017.

Our effective income tax rate was 74.5% for the three months ended September 30, 2017, compared to 247.8% for the same period in 2016. The primary reasons for the effective income tax rate changes are due to differing levels of income (loss) before income tax and discrete charges recorded during the respective periods. Factors that could cause our annual effective tax rate to differ materially from our quarterly effective tax rates include changes in the geographic mix of taxable income and discrete events that may occur. There were three discrete events in the amount of \$421 recorded in the Company's income tax provision calculation for the three months ended September 30, 2017. There was one discrete event in the amount of \$520 recorded in the Company's income tax provision calculation for the three months ended September 30, 2016.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

Results of Operations

Condensed Consolidated Nine Months Ended September 30, 2017 Compared to Condensed Consolidated Nine Months Ended September 30, 2016

The following presents a discussion of condensed consolidated operations for the nine months ended September 30, 2017, compared with the condensed consolidated nine months ended September 30, 2016.

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Sales		
Domestic sales	\$ 59,474	\$ 54,190
International sales	58,536	52,600
Total sales	118,010	106,790
Cost of goods sold	81,388	75,155
Gross profit	36,622	31,635
Operating expenses		
Selling, general and administrative	39,826	37,311
Restructuring charge	116	1,275
Transaction costs	1,869	269
Arbitration award	-	(1,967)
Total operating expenses	41,811	36,888
Operating loss	(5,189)	(5,253)
Other (expense) income		
Interest expense, net	(948)	(2,142)
Other, net	435	826
Total other expense, net	(513)	(1,316)
Loss before income tax	(5,702)	(6,569)
Income tax expense	990	1,020
Net loss	\$ (6,692)	\$ (7,589)

Sales

Consolidated sales increased \$11,220, or 10.5%, to \$118,010 during the nine months ended September 30, 2017, compared to consolidated sales of \$106,790 during the nine months ended September 30, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed \$3,532 in sales during the nine months ended September 30, 2017. The remaining increase in sales was attributable to an increase in the quantity of new and existing climb, mountain and ski products sold during the period and an increase in sales of \$700 due to the strengthening of foreign currencies against the U.S. dollar during the nine months ended September 30, 2017 compared to the prior period.

Consolidated domestic sales increased \$5,284, or 9.8%, to \$59,474 during the nine months ended September 30, 2017, compared to consolidated domestic sales of \$54,190 during the nine months ended September 30, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed \$2,301 in sales during the nine months ended September 30, 2017. The remaining increase in domestic sales was attributable to an increase in the quantity of new and existing climb and ski products sold during the period.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

Consolidated international sales increased \$5,936, or 11.3%, to \$58,536 during the nine months ended September 30, 2017, compared to consolidated international sales of \$52,600 during the nine months ended September 30, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed \$1,231 in sales during the nine months ended September 30, 2017. The remaining increase in international sales was attributable to an increase in the quantity of new and existing climb, mountain and ski products sold during the period and an increase in sales of \$700 due to the strengthening of foreign currencies against the U.S. dollar during the nine months ended September 30, 2017 compared to the prior period.

Cost of Goods Sold

Consolidated cost of goods sold increased \$6,233, or 8.3%, to \$81,388 during the nine months ended September 30, 2017, compared to consolidated cost of goods sold of \$75,155 during the nine months ended September 30, 2016. The increase in cost of goods sold was partially attributable to the inclusion of Sierra of \$2,484, which included \$420 related to the sale of inventory that was recorded at fair value in purchase accounting. The remaining amount of inventory that was recorded at fair value in purchase accounting, which totals \$2,102, is expected to be sold during the fourth quarter of 2017 and first quarter of 2018. The remaining increase in cost of goods sold was attributable to an increase in the number of units sold and the mix of higher cost products sold.

Gross Profit

Consolidated gross profit increased \$4,987, or 15.8%, to \$36,622 during the nine months ended September 30, 2017, compared to consolidated gross profit of \$31,635 during the nine months ended September 30, 2016. Consolidated gross margin was 31.0% during the nine months ended September 30, 2017, compared to a consolidated gross margin of 29.6% during the nine months ended September 30, 2016. Consolidated gross margin during the nine months ended September 30, 2017, increased compared to the prior year due to a favorable product mix in higher margin products and channel distribution, as well as lower costs related to the Company's manufacturing activities that were transferred from China to the United States. Gross margin also benefited from the inclusion of Sierra; however, this benefit was offset by a decrease in gross margin of 0.4% due to the sale of inventory that was recorded at its preliminary fair value in purchase accounting.

Selling, General and Administrative

Consolidated selling, general and administrative expenses increased \$2,515, or 6.7%, to \$39,826 during the nine months ended September 30, 2017, compared to consolidated selling, general and administrative expenses of \$37,311 during the nine months ended September 30, 2016. The increase in selling, general and administrative expenses was partially attributable to the inclusion of Sierra of \$632, with the remaining increase being attributable to the Company's investment in the brand related activities of sales, marketing and research and development in supporting its strategic initiatives around new product introduction and increasing brand equity. Stock compensation also increased \$536 during the nine months ended September 30, 2017 compared to the prior year.

Restructuring Charges

Consolidated restructuring expense decreased \$1,159, or 90.9%, to \$116 during the nine months ended September 30, 2017, compared to consolidated restructuring expense of \$1,275 during the nine months ended September 30, 2016. Restructuring expenses incurred during the nine months ended September 30, 2017, related to costs associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China. Restructuring expenses incurred during the nine months ended September 30, 2016, primarily related to benefits provided to employees who were terminated due to the Company's reduction-in-force as part of its continued realignment of resources within the organization, costs associated with the move of the Company's Black Diamond Equipment European office from Basel, Switzerland to Innsbruck, Austria, and costs associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China.

Transaction Costs

Consolidated transaction expense increased \$1,600, or 594.8%, to \$1,869 during the nine months ended September 30, 2017, compared to consolidated transaction costs of \$269 during the nine months ended September 30, 2016. The expenses during the nine months ended September 30, 2017 consisted of expenses related to the Company's acquisition of Sierra. The expenses during the nine months ended September 30, 2017 consisted of expenses related to the Company's redeployment and diversification strategy.

Arbitration Award

During the nine months ended September 30, 2016, the Company received an arbitral award on agreed terms of \$1,967, related to certain claims against the former owner of PIEPS associated with the voluntary recall of all the PIEPS VECTOR avalanche transceivers during the year ended December 31, 2013.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

Interest Expense, net

Consolidated interest expense, net, decreased \$1,194, or 55.7%, to \$948 during the nine months ended September 30, 2017, compared to consolidated interest expense, net, of \$2,142 during the nine months ended September 30, 2016. The decrease in interest expense, net, was primarily attributable to the repayment of the Company's 5% Senior Subordinated Notes during the three months ended March 31, 2017.

Other, net

Consolidated other, net, decreased \$391, or 47.3%, to income of \$435 during the nine months ended September 30, 2017, compared to consolidated other, net income of \$826 during the nine months ended September 30, 2016. The decrease in other, net, was primarily attributable to an increase in remeasurement losses recognized on the Company's foreign denominated accounts receivable and accounts payable, losses on mark-to-market adjustments on non-hedged foreign currency contracts and the absence of gains related to the sale of marketable securities during the three months ended September 30, 2017. These losses were partially offset by gains related to recognition of cumulative translation adjustments due to the substantial liquidation of a foreign entity.

Income Taxes

Consolidated income tax expense decreased \$30, or 2.9%, to \$990 during the nine months ended September 30, 2017, compared to a consolidated income tax expense of \$1,020 during the same period in 2016. The tax expense recorded during the nine months ended September 30, 2017 includes discrete charges associated with a disproportionate tax effect released from accumulated other comprehensive loss of \$344, an Alternative Minimum Tax related to the Ember dividend of \$211, and Sierra amortization of indefinite lived intangibles and goodwill of \$101. The tax expense recorded during the nine months ended September 30, 2016 includes a discrete charge for a Swiss withholding tax related to the transferring of Black Diamond Equipment's European operations from Basel, Switzerland to Innsbruck, Austria, and a discrete charge for a potential tax liability related to a tax audit associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China. The audit was formally closed during the three months ended June 30, 2017.

Our effective income tax rate was 17.4% for the nine months ended September 30, 2017, compared to 15.5% for the same period in 2016. The primary reasons for the effective income tax rate changes are due to differing levels of income (loss) before income tax and discrete charges recorded during the respective periods. Factors that could cause our annual effective tax rate to differ materially from our quarterly effective tax rates include changes in the geographic mix of taxable income and discrete events that may occur. There were four discrete events in the amount of \$676 recorded in the Company's income tax provision calculation for the nine months ended September 30, 2017. There were two discrete events in the amount of \$1,117 recorded in the Company's income tax provision calculation for the nine months ended September 30, 2016.

Liquidity and Capital Resources

Condensed Consolidated Nine Months Ended September 30, 2017 Compared to Condensed Consolidated Nine Months Ended September 30, 2016

The following presents a discussion of cash flows for the condensed consolidated nine months ended September 30, 2017 compared with the condensed consolidated nine months ended September 30, 2016. Our primary ongoing funding requirements are for working capital, expansion of our operations and general corporate needs, as well as investing activities associated with the expansion into new product categories. We plan to fund our future expansion of operations and investing activities through a combination of our future operating cash flows and revolving credit facility. We believe that our liquidity requirements for at least the next 12 months will be adequately covered by cash provided by operations and our existing revolving credit facility. At September 30, 2017, we had total cash of \$1,672 compared to a cash balance of \$94,738 at December 31, 2016, which was substantially controlled by the Company's U.S. entities. At September 30, 2017, the Company had \$332 of the \$1,672 in cash held by foreign entities, of which \$332 is considered permanently reinvested.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Net cash (used in) provided by operating activities	\$ (16,578)	\$ 5,405
Net cash (used in) provided by investing activities	(81,104)	7,301
Net cash provided by (used in) financing activities	4,491	(5,222)
Effect of foreign exchange rates on cash	125	70
Change in cash	(93,066)	7,554
Cash, beginning of period	94,738	88,401
Cash, end of period	<u>\$ 1,672</u>	<u>\$ 95,955</u>

Net Cash From Operating Activities

Consolidated net cash used in operating activities was \$16,578 during the nine months ended September 30, 2017, compared to consolidated net cash provided by operating activities of \$5,405 during the nine months ended September 30, 2016. The increase in net cash used in operating activities during 2017 is primarily due to an increase in net operating assets, net of assets acquired or non-cash working capital of \$24,039 partially offset by a decrease in net loss during the nine months ended September 30, 2017, compared to the same period in 2016.

Free cash flow, defined as net cash provided by operating activities less capital expenditures, was free cash flows used of \$18,497 during the nine months ended September 30, 2017 compared to free cash flows provided of \$3,369 during the same period in 2016. The Company believes that the non-GAAP measure, free cash flow, provides an understanding of the capital required by the Company to expand its asset base. A reconciliation of free cash flows to comparable GAAP financial measures is set forth below:

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Net cash (used in) provided by operating activities	\$ (16,578)	\$ 5,405
Purchase of property and equipment	(1,919)	(2,036)
Free cash flow	<u>\$ (18,497)</u>	<u>\$ 3,369</u>

Net Cash From Investing Activities

Consolidated net cash used in investing activities was \$81,104 during the nine months ended September 30, 2017, compared to consolidated net cash provided by investing activities of \$7,301 during the nine months ended September 30, 2016. The increase in cash used during the nine months ended September 30, 2017 is primarily due to the \$79,238 used for the purchase of Sierra, net of cash acquired. The cash provided during the nine months ended September 30, 2016 was primarily from the sale of marketable securities of \$10,235.

Net Cash From Financing Activities

Consolidated net cash provided by financing activities was \$4,491 during the nine months ended September 30, 2017, compared to consolidated cash used in financing activities of \$5,222 during the nine months ended September 30, 2016. The cash provided during the nine months ended September 30, 2017 relates primarily to proceeds from the revolving credit facility offset by repayments of. The cash used during the nine months ended September 30, 2016 relates to the repurchase of its common stock.

Net Operating Loss

As of December 31, 2016, the Company had net operating loss, research and experimentation credit and alternative minimum tax credit carryforwards for U.S. federal income tax purposes of \$172,419 (\$270, relates to excess tax benefits related to share based payment compensation), \$3,407 and \$315, respectively. The Company believes its U.S. Federal net operating loss ("NOL") will substantially offset its future U.S. Federal income taxes, excluding the amount subject to U.S. Federal Alternative Minimum Tax ("AMT"). AMT is calculated as 20% of AMT income. For purposes of AMT, a maximum of 90% of income is offset by available NOLs. The majority of the Company's pre-tax income is currently earned and expected to be earned in the U.S., or taxed in the U.S. as Subpart F income and will be offset with the NOL. \$172,149 of net operating losses available to offset taxable income does not expire until 2021 or later, subject to compliance with Section 382 of the Internal Revenue Code of 1986, as amended.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

As of December 31, 2016, the Company's gross deferred tax asset was \$75,416. The Company has recorded a valuation allowance of \$67,662, resulting in a net deferred tax asset of \$7,754, before deferred tax liabilities of \$16,720. The Company has provided a valuation allowance against a portion of the net deferred tax assets as of December 31, 2016, because the ultimate realization of those assets does not meet the more likely than not criteria. The majority of the Company's deferred tax assets consist of net operating loss carryforwards for federal tax purposes. If a change in control were to occur, these could be limited under Section 382 of the Internal Revenue Code of 1986 ("Code"), as amended.

Revolving Credit Facility

In conjunction with the acquisition of Sierra, on August 21, 2017, the Company together with its direct and indirect domestic subsidiaries entered into a third amended and restated loan agreement (the "Third Amended and Restated Loan Agreement") with ZB, N.A. dba Zions First National Bank (the "Lender"), which matures on August 21, 2022. Under the Third Amended and Restated Loan Agreement, the Company has up to a \$40,000 revolving line of credit (the "Revolving Line of Credit") pursuant to a fourth amended and restated promissory note (revolving loan) (the "Revolving Line of Credit Promissory Note"). The maximum borrowing of \$40,000 (the "Maximum Borrowing") under the Revolving Line of Credit reduces by \$1,250 per quarter until such time as the maximum borrowing amount is \$20,000, provided, that the Company may request an increase of up to \$20,000 as an accordion option (the "Accordion") to increase the Revolving Line of Credit up to the Maximum Borrowing on a seasonal or permanent basis for funding general corporate needs including working capital, capital expenditures, permitted loans or investments in subsidiaries, and the issuance of letters of credit. Availability under the Revolving Line of Credit may not exceed \$30,000 unless the Company has sufficient eligible receivable, inventory and equipment assets at such time pursuant to formulas set forth in the Third Amended and Restated Loan Agreement.

All debt associated with the Third Amended and Restated Loan Agreement bears interest at one-month London Interbank Offered Rate ("LIBOR") plus an applicable margin as determined by the ratio of Total Net Debt (subject to adjustments as set forth in the Third Amended and Restated Loan Agreement) to Trailing Twelve Month Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") as follows: (i) one month LIBOR plus 4.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.75; (ii) one month LIBOR plus 3.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.00 and less than 2.75; (iii) one month LIBOR plus 2.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 1.00 and less than 2.00; and (iv) one month LIBOR plus 1.5% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is less than 1.00.

Any amount outstanding under the Third Amended and Restated Loan Agreement will be secured by a general first priority Uniform Commercial Code ("UCC") security interest in all material domestic assets of the Company and its domestic subsidiaries, including, but not limited to: accounts, accounts receivable, inventories, equipment, real property, ownership in subsidiaries, and intangibles including patents, trademarks and copyrights. Proceeds of the foregoing will be secured via pledge and control agreements on domestic depository and investment accounts not held with the Lender.

The Third Amended and Restated Loan Agreement contains certain financial covenants including restrictive debt covenants that require the Company and its subsidiaries to maintain a minimum fixed charge coverage ratio, a maximum total leverage ratio, a minimum net worth, a positive amount of asset coverage and limitations on capital expenditures, all as calculated in the Third Amended and Restated Loan Agreement.

In addition, the Third Amended and Restated Loan Agreement contains covenants restricting the Company and its subsidiaries from pledging or encumbering their assets, with certain exceptions, and from engaging in acquisitions other than acquisitions permitted by the Third Amended and Restated Loan Agreement. The Third Amended and Restated Loan Agreement contains customary events of default (with grace periods where customary) including, among other things, failure to pay any principal or interest when due; any materially false or misleading representation, warranty, or financial statement; failure to comply with or to perform any provision of the Third and Restated Loan Agreement; and default on any debt or agreement in excess of certain amounts. As of September 30, 2017, the Company had drawn \$27,353 on the \$40,000 revolving credit facility.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

5% Senior Subordinated Notes due May 28, 2017

As part of the consideration payable to the stockholders of Gregory when the Company acquired Gregory, the Company issued \$14,517, \$7,539, and \$554 in 5% Unsecured Subordinated Notes due May 28, 2017 (the "Merger Consideration Subordinated Notes") to Kanders GMP Holdings, LLC, Schiller Gregory Investment Company, LLC, and five former employees of Gregory, respectively. Mr. Warren B. Kanders, the Company's Executive Chairman and a member of its Board of Directors, is a majority member and a trustee of the manager of Kanders GMP Holdings, LLC. The sole manager of Schiller Gregory Investment Company, LLC is Mr. Robert R. Schiller, the Company's former Executive Vice Chairman and former member of its Board of Directors. The principal terms of the Merger Consideration Subordinated Notes was as follows: (i) the principal amount was due and payable on May 28, 2017 and was prepayable by the Company at any time; (ii) interest accrued on the principal amount at the rate of 5% per annum and was payable quarterly in cash; (iii) the default interest rate accrued at the rate of 10% per annum during the occurrence of an event of default; and (iv) events of default, which can only be triggered with the consent of Kanders GMP Holdings, LLC, were: (a) the default by the Company on any payment due under a Merger Consideration Subordinated Note; (b) the Company's failure to perform or observe any other material covenant or agreement contained in the Merger Consideration Subordinated Notes; or (c) the Company's instituting or becoming subject to a proceeding under the Bankruptcy Code (as defined in the Merger Consideration Subordinated Notes). The Merger Consideration Subordinated Notes were junior to all senior indebtedness of the Company, except that payments of interest continue to be made under the Merger Consideration Subordinated Notes as long as no event of default exists under any senior indebtedness.

Given the below market interest rate for comparably secured notes and the relative illiquidity of the Merger Consideration Subordinated Notes, we discounted the notes to \$8,640, \$4,487 and \$316, respectively, at the date of acquisition. We were accreting the discount on the Merger Consideration Subordinated Notes to interest expense using the effective interest method over the term of the Merger Consideration Subordinated Notes. The effective interest rate was approximately 14%.

On April 7, 2011, Schiller Gregory Investment Company, LLC transferred its Merger Consideration Subordinated Note in equal amounts to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust. On June 24, 2013, the Robert R. Schiller Cornerstone Trust dated September 9, 2010 transferred its Merger Consideration Subordinated Note in the amount of \$3,769 to the Robert R. Schiller 2013 Cornerstone Trust dated June 24, 2013. During the three and nine months ended September 30, 2017, \$0 and \$89 in interest, respectively, was paid to Kanders GMP Holdings, LLC, and \$0 and \$46 in interest, respectively, was paid to the Robert R. Schiller 2013 Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust pursuant to the outstanding Merger Consideration Subordinated Notes.

On May 29, 2012 and August 13, 2012, five former employees of Gregory exercised certain sales rights and sold Merger Consideration Subordinated Notes in the aggregate principal amount of approximately \$365 to Kanders GMP Holdings, LLC and in the aggregate principal amount of approximately \$189 to Schiller Gregory Investment Company, LLC. During the three and nine months ended September 30, 2017, \$0 and \$2 in interest, respectively, was paid to Kanders GMP Holdings, LLC, and \$0 and \$1 in interest, respectively, was paid to Schiller Gregory Investment Company, LLC, pursuant to these outstanding Merger Consideration Subordinated Notes.

In February 2017, the Board of Directors approved the repayment of the Merger Consideration Subordinated Notes. On February 13, 2017, the entire principal amounts and all accrued interest amounts were paid in full. The note discount as of December 31, 2016 of \$814 was expensed and recognized as interest expense during the three months ended March 31, 2017.

Off-Balance Sheet Arrangements

We do not engage in any transactions or have relationships or other arrangements with unconsolidated entities. These include special purpose and similar entities or other off-balance sheet arrangements. We also do not engage in energy, weather or other commodity-based contracts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has not been any material change in the market risk disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

CLARUS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
(in thousands, except per share amounts)

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Executive Chairman and Chief Administrative Officer/Chief Financial Officer, its principal executive officer and principal financial officer, respectively, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of September 30, 2017, pursuant to Exchange Act Rule 13a-15. Such disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the appropriate management on a basis that permits timely decisions regarding disclosure. Based upon that evaluation, the Company's Executive Chairman and Chief Administrative Officer/Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2017, were effective. Management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting Sierra's internal control over financial reporting associated with total assets of \$79,918 and total revenues of \$3,532 included in the condensed consolidated financial statements of the Company as of September 30, 2017.

Changes in Internal Control over Financial Reporting

On August 21, 2017, the Company acquired Sierra. Because Sierra utilizes separate information and accounting systems, the Company has implemented changes to its internal controls over financial reporting to include the consolidation of Sierra, as well as acquisition-related accounting and disclosures. The acquisition of Sierra represents a material change in internal control over financial reporting since management's last assessment of the Company's internal control over financial reporting, which was completed as of December 31, 2016.

The Company's management is reviewing and evaluating its internal control procedures and the design of those control procedures related to the Sierra acquisition and evaluating when it will complete an evaluation and review of Sierra's internal controls over financial reporting.

Except as described above, there has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CLARUS CORPORATION

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal Proceedings

The Company is involved in various legal disputes and other legal proceedings that arise from time to time in the ordinary course of business. Based on currently available information, the Company does not believe that the disposition of any of the legal disputes the Company or its subsidiaries is currently involved in will have a material adverse effect upon the Company's consolidated financial condition, results of operations or cash flows. It is possible that, as additional information becomes available, the impact on the Company of an adverse determination could have a different effect.

Litigation

The Company is involved in various lawsuits arising from time to time that the Company considers ordinary routine litigation incidental to its business. Amounts accrued for litigation matters represent the anticipated costs (damages and/or settlement amounts) in connection with pending litigation and claims and related anticipated legal fees for defending such actions, which legal fees are expensed as incurred. The costs are accrued when it is both probable that a liability has been incurred and the amount can be reasonably estimated. The accruals are based upon the Company's assessment, after consultation with counsel (if deemed appropriate), of probable loss based on the facts and circumstances of each case, the legal issues involved, the nature of the claim made, the nature of the damages sought and any relevant information about the plaintiffs and other significant factors that vary by case. When it is not possible to estimate a specific expected cost to be incurred, the Company evaluates the range of probable loss and records the minimum end of the range. Based on currently available information, the Company does not believe that it is reasonably possible that the disposition of any of the legal disputes the Company or its subsidiaries is currently involved in will have a material adverse effect upon the Company's consolidated financial condition, results of operations or cash flows. There is a reasonable possibility of loss from contingencies in excess of the amounts accrued by the Company in the accompanying condensed consolidated balance sheets; however, the actual amounts of such possible losses cannot currently be reasonably estimated by the Company at this time. It is possible that, as additional information becomes available, the impact on the Company could have a different effect.

Product Liability

As a consumer goods manufacturer and distributor, the Company faces the risk of product liability and related lawsuits involving claims for substantial money damages, product recall actions and higher than anticipated rates of warranty returns or other returns of goods. The Company is therefore vulnerable to various personal injury and property damage lawsuits relating to its products and incidental to its business.

Based on current information, there are no pending product liability claims and lawsuits of the Company, which the Company believes in the aggregate, will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 5. OTHER INFORMATION

On November 7, 2017, the Company delivered a letter (the "Letter") to Greenhouse Funds LLLP and its affiliates (collectively, "Greenhouse") approving Greenhouse's request to be permitted under the Company's Rights Agreement dated as of February 12, 2008 to acquire beneficial ownership in excess of 4.9% of the Company's outstanding shares of common stock. Such approval is conditioned upon, and subject to Greenhouse: (i) not increasing such beneficial ownership to in excess of 7.5% of the Company's outstanding shares of common stock; (ii) remaining continuously eligible to report its ownership of the Company's common stock on Schedule 13G; and (iii) increasing such beneficial ownership to in excess of 4.9% of the Company's outstanding shares of common stock on or before the twelve month anniversary of the date of the Letter.

CLARUS CORPORATION

Furthermore, in the event that Greenhouse increases its beneficial ownership to in excess of 4.9% of the Company's outstanding shares of common stock and then subsequently reduces its beneficial ownership to below 4.9%, the approval granted pursuant to the Letter shall immediately terminate and the applicable party would need to obtain a new approval from the Company's Board of Directors before seeking to again increase its beneficial ownership to in excess of 4.9% of the Company's outstanding shares of common stock.

A copy of the Letter is attached to this Quarterly Report on Form 10-Q as Exhibit 99.1 and is incorporated herein by reference as if fully set forth herein. The foregoing summary description of the Letter is not intended to be complete and is qualified in its entirety by the complete text of the Letter.

CLARUS CORPORATION

ITEM 6. EXHIBITS

Exhibit	Description
<u>10.1</u>	<u>Purchase and Sale Agreement dated as of August 21, 2017, by and among Everest/Sapphire Acquisition, LLC, Sierra Bullets, L.L.C., BHH Management, Inc., and Lumber Management, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 25, 2017 and incorporated herein by reference).</u>
<u>10.2</u>	<u>Third Amended and Restated Loan Agreement, effective as of August 21, 2017, by and among ZB, N.A. dba Zions First National Bank, a national banking association, as Lender, and Clarus Corporation; Black Diamond Equipment, Ltd.; Black Diamond Retail, Inc.; Everest/Sapphire Acquisition, LLC; BD North American Holdings, LLC; PIEPS Service, LLC; BD European Holdings, LLC, and Sierra Bullets, L.L.C. as Borrowers (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 25, 2017 and incorporated herein by reference).</u>
<u>10.3</u>	<u>Fourth Amended and Restated Promissory Note (Revolving Loan) dated effective as of August 21, 2017, by and among Clarus Corporation; Black Diamond Equipment, Ltd.; Black Diamond Retail, Inc.; Everest/Sapphire Acquisition, LLC; BD North American Holdings, LLC; PIEPS Service, LLC; BD European Holdings, LLC, and Sierra Bullets, L.L.C. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 25, 2017 and incorporated herein by reference).</u>
<u>31.1</u>	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *</u>
<u>32.1</u>	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **</u>
<u>32.2</u>	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **</u>
<u>99.1</u>	<u>Letter to Greenhouse Funds LLLP dated November 7, 2017 *</u>
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
*	Filed herewith
**	Furnished herewith

CLARUS CORPORATION

SIGNATURES

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

CLARUS CORPORATION

Date: November 7, 2017

By: /s/ Warren B. Kanders
Name: Warren B. Kanders
Title: Executive Chairman
(Principal Executive Officer)

By: /s/ Aaron J. Kuehne
Name: Aaron J. Kuehne
Title: Chief Administrative Officer and
Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

CLARUS CORPORATION

EXHIBIT INDEX

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
*	Filed herewith
**	Furnished herewith

CLARUS CORPORATION

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Warren B. Kanders, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Clarus Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the 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: November 7, 2017

By: /s/ Warren B. Kanders
Name: Warren B. Kanders
Title: Executive Chairman
(Principal Executive Officer)

CLARUS CORPORATION

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Aaron J. Kuehne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Clarus Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the 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: November 7, 2017

By: /s/ Aaron J. Kuehne
Name: Aaron J. Kuehne
Title: Chief Administrative Officer and
Chief Financial Officer
(Principal Financial Officer)

CLARUS CORPORATION

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 of Clarus Corporation (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Warren B. Kanders, Executive Chairman, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 7, 2017

By: /s/ Warren B. Kanders
Name: Warren B. Kanders
Title: Executive Chairman
(Principal Executive Officer)

CLARUS CORPORATION

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 of Clarus Corporation (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aaron Kuehne, Chief Administrative Officer and Chief Financial Officer, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 7, 2017

By: /s/ Aaron J. Kuehne
Name: Aaron J. Kuehne
Title: Chief Administrative Officer and
Chief Financial Officer
(Principal Financial Officer)

**Clarus Corporation
2084 East 3900 South,
Salt Lake City, Utah 84124**

November 7, 2017

Via Regular Mail and Email (jmilano@greenhousefunds.com)

Joseph M. Milano, CFA
Greenhouse Funds LLLP
50 S. Exeter St, Suite 1080
Baltimore, MD 21202

Dear Mr. Milano:

I am responding to your request that Greenhouse Funds LLLP and its Affiliates (as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) (collectively, "Greenhouse") be permitted under Clarus Corporation's (the "Company") Rights Agreement dated as of February 12, 2008 (the "Rights Agreement") to acquire beneficial ownership in excess of 4.9% of the Company's outstanding shares of common stock. We note that Greenhouse has beneficial ownership of 960,045 shares of the Company's common stock, as publicly disclosed by Greenhouse in the Schedule 13F for the quarter ended June 30, 2017, filed by it with the Securities and Exchange Commission on August 14, 2017, which represents approximately 3.2% of the Company's outstanding shares of common stock.

The Company's Board of Directors has considered Greenhouse's request to acquire beneficial ownership in excess of 4.9% of the Company's outstanding shares of common stock, and has determined to approve Greenhouse's request to increase its current beneficial ownership to in excess of 4.9% of the Company's outstanding shares of common stock, provided that the foregoing determination is conditioned upon, and subject to Greenhouse: (i) not increasing such beneficial ownership to in excess of 7.5% of the Company's outstanding shares of common stock; (ii) remaining continuously eligible to report its ownership of the Company's common stock on Schedule 13G; and (iii) increasing such beneficial ownership to in excess of 4.9% of the Company's outstanding shares of common stock on or before the twelve month anniversary of the date of this letter.

Please note that in the event that Greenhouse increases its beneficial ownership to in excess of 4.9% of the Company's outstanding shares of common stock and then subsequently reduces its beneficial ownership to below 4.9%, the approval granted pursuant to this letter shall immediately terminate and Greenhouse would need to obtain a new approval from the Company's Board of Directors before seeking to again increase its beneficial ownership to in excess of 4.9% of the Company's outstanding shares of common stock.

Should you have any further questions, please do not hesitate to contact me.

Very truly yours,

CLARUS CORPORATION

By: /s/ Aaron J. Kuehne

Name: Aaron J. Kuehne

Title: Chief Administrative Officer and Chief Financial Officer

**Accepted and Agreed to
as of the Date First Set Forth Above:**

GREENHOUSE FUNDS LLLP

By: /s/ Joseph M. Milano

Name: Joseph M. Milano

Title: Chief Investment Officer
