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, 2020**

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $.0001 per share	CLAR	NASDAQ Global Select Market

As of November 4, 2020, there were 31,063,094 shares of common stock, par value $0.0001, outstanding.

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CLARUS CORPORATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash	$ 17,027	$ 1,703
Accounts receivable, less allowance for credit losses and doubtful accounts of $1,460 and $494, respectively	42,582	41,628
Inventories	64,897	73,432
Prepaid and other current assets	4,544	3,787
Income tax receivable	532	322
Total current assets	129,582	120,872
Property and equipment, net	22,691	22,919
Other intangible assets, net	13,610	15,816
Indefinite lived intangible assets	41,772	41,630
Goodwill	18,090	18,090
Deferred income taxes	8,728	7,904
Other long-term assets	33,365	3,034
Total assets	$ 267,838	$ 230,265
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 29,157	$ 24,304
Income tax payable	489	260
Current portion of long-term debt	4,000	-
Total current liabilities	33,646	24,564
Long-term debt	37,062	22,670
Deferred income taxes	1,219	1,224
Other long-term liabilities	624	615
Total liabilities	72,551	49,073
Stockholders' Equity		
Preferred stock, $.0001 par value per share; 5,000 shares authorized; none issued	-	-
Common stock, $.0001 par value per share; 100,000 shares authorized; 35,021 and 33,615 issued and 31,051 and 29,760 outstanding, respectively	4	3
Additional paid in capital	511,331	492,353
Accumulated deficit	(292,393)	(288,592)
Treasury stock, at cost	(23,789)	(22,269)
Accumulated other comprehensive income (loss)	134	(303)
Total stockholders' equity	195,287	181,192
Total liabilities and stockholders' equity	$ 267,838	$ 230,265

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	September 30, 2020	September 30, 2019
Sales		
Domestic sales	$ 34,686	$ 28,794
International sales	29,805	31,409
Total sales	64,491	60,203
Cost of goods sold	42,822	39,646
Gross profit	21,669	20,557
Operating expenses		
Selling, general and administrative	18,674	16,443
Transaction costs	1,440	37
Total operating expenses	20,114	16,480
Operating income	1,555	4,077
Other income (expense)		
Interest expense, net	(232)	(353)
Other, net	449	(420)
Total other income (expense), net	217	(773)
Income before income tax	1,772	3,304
Income tax expense (benefit)	589	(188)
Net income	1,183	3,492
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	807	(726)
Unrealized (loss) gain on hedging activities	(600)	759
Other comprehensive income	207	33
Comprehensive income	$ 1,390	$ 3,525
Net income per share:		
Basic	$ 0.04	$ 0.12
Diluted	0.04	0.11
Weighted average shares outstanding:		
Basic	29,983	29,876
Diluted	30,986	31,077

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Sales		
Domestic sales	$ 83,493	$ 87,805
International sales	64,567	80,610
Total sales	148,060	168,415
Cost of goods sold	97,243	109,810
Gross profit	50,817	58,605
Operating expenses		
Selling, general and administrative	50,537	51,215
Restructuring charge	-	13
Transaction costs	1,870	124
Total operating expenses	52,407	51,352
Operating (loss) income	(1,590)	7,253
Other expense		
Interest expense, net	(800)	(978)
Other, net	324	(260)
Total other expense, net	(476)	(1,238)
(Loss) income before income tax	(2,066)	6,015
Income tax benefit	(542)	(570)
Net (loss) income	(1,524)	6,585
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	773	(869)
Unrealized (loss) gain on hedging activities	(336)	171
Other comprehensive income (loss)	437	(698)
Comprehensive (loss) income	$ (1,087)	$ 5,887
Net (loss) income per share:		
Basic	$ (0.05)	$ 0.22
Diluted	(0.05)	0.21
Weighted average shares outstanding:		
Basic	29,854	29,841
Diluted	29,854	30,999

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Cash Flows From Operating Activities:		
Net (loss) income	$ (1,524)	$ 6,585
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of property and equipment	3,405	3,332
Amortization of other intangible assets	2,290	2,665
Amortization of debt issuance costs	230	206
Loss on disposition of property and equipment	32	62
Noncash lease expense	563	501
Stock-based compensation	5,433	2,246
Deferred income taxes	(885)	(551)
Changes in operating assets and liabilities:		
Accounts receivable	(541)	(6,480)
Inventories	9,477	(9,310)
Prepaid and other assets	(971)	3
Accounts payable and accrued liabilities	3,530	6,559
Income taxes	9	(183)
Net cash provided by operating activities	21,048	5,635
Cash Flows From Investing Activities:		
Deposit for business acquisition	(30,500)	-
Proceeds from disposition of property and equipment	327	20
Purchase of property and equipment	(3,606)	(2,838)
Net cash used in investing activities	(33,779)	(2,818)
Cash Flows From Financing Activities:		
Proceeds from revolving credit facilities	49,265	106,934
Repayments on revolving credit facilities	(50,014)	(104,088)
Repayments of financing and capital leases	(1,000)	(31)
Proceeds from issuance of long-term debt	20,000	-
Payment of debt issuance costs	(44)	(680)
Purchase of treasury stock	(1,520)	(4,167)
Proceeds from exercise of stock options	862	896
Cash dividends paid	(744)	(2,243)
Proceeds from the sale of common stock	11,476	-
Common stock issuance costs	(325)	-
Net cash provided by (used in) financing activities	27,956	(3,379)
Effect of foreign exchange rates on cash	99	(73)
Change in cash	15,324	(635)
Cash, beginning of period	1,703	2,486
Cash, end of period	$ 17,027	$ 1,851
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	$ 418	$ 131
Cash paid for interest	$ 624	$ 781
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Property and equipment purchased with accounts payable	$ 286	$ 133
Lease liabilities arising from obtaining right of use assets	$ 499	$ 1,855
Unpaid debt issuance costs	$ 150	$ -
Stock dividends	$ 1,533	$ -

See accompanying notes to condensed consolidated financial statements.

CLARUS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance, December 31, 2018	33,244	$ 3	$ 488,404	$ (304,577)	(3,496)	$ (18,102)	$ 477	$ 166,205
Net income	-	-	-	3,787	-	-	-	3,787
Other comprehensive loss	-	-	-	-	-	-	(462)	(462)
Cash dividends ($0.025 per share)	-	-	-	(746)	-	-	-	(746)
Stock-based compensation expense	-	-	785	-	-	-	-	785
Balance, March 31, 2019	33,244	$ 3	$ 489,189	$ (301,536)	(3,496)	$ (18,102)	$ 15	$ 169,569
Net loss	-	-	-	(694)	-	-	-	(694)
Other comprehensive loss	-	-	-	-	-	-	(269)	(269)
Cash dividends ($0.025 per share)	-	-	-	(748)	-	-	-	(748)
Purchase of treasury stock	-	-	-	-	(116)	(1,505)	-	(1,505)
Stock-based compensation expense	-	-	783	-	-	-	-	783
Proceeds from exercise of options	351	-	804	-	-	-	-	804
Balance, June 30, 2019	33,595	$ 3	$ 490,776	$ (302,978)	(3,612)	$ (19,607)	$ (254)	$ 167,940
Net income	-	-	-	3,492	-	-	-	3,492
Other comprehensive income	-	-	-	-	-	-	33	33
Cash dividends ($0.025 per share)	-	-	-	(749)	-	-	-	(749)
Purchase of treasury stock	-	-	-	-	(243)	(2,662)	-	(2,662)
Stock-based compensation expense	-	-	678	-	-	-	-	678
Proceeds from exercise of options	10	-	92	-	-	-	-	92
Balance, September 30, 2019	33,605	$ 3	$ 491,546	$ (300,235)	(3,855)	$ (22,269)	$ (221)	$ 168,824

CLARUS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance, December 31, 2019	33,615	$ 3	$ 492,353	$ (288,592)	(3,855)	$ (22,269)	$ (303)	$ 181,192
Net income	-	-	-	36	-	-	-	36
Other comprehensive income	-	-	-	-	-	-	412	412
Cash dividends ($0.025 per share)	-	-	-	(744)	-	-	-	(744)
Stock-based compensation expense	-	-	613	-	-	-	-	613
Balance, March 31, 2020	33,615	$ 3	$ 492,966	$ (289,300)	(3,855)	$ (22,269)	$ 109	$ 181,509
Net loss	-	-	-	(2,743)	-	-	-	(2,743)
Other comprehensive loss	-	-	-	-	-	-	(182)	(182)
Stock dividends ($0.025 per share)	70	-	714	(714)	-	-	-	-
Purchase of treasury stock	-	-	-	-	(14)	(137)	-	(137)
Stock-based compensation expense	-	-	616	-	-	-	-	616
Proceeds from exercise of options	72	-	497	-	-	-	-	497
Balance, June 30, 2020	33,757	$ 3	$ 494,793	$ (292,757)	(3,869)	$ (22,406)	$ (73)	$ 179,560
Net income	-	-	-	1,183	-	-	-	1,183
Other comprehensive income	-	-	-	-	-	-	207	207
Stock dividends ($0.025 per share)	63	-	819	(819)	-	-	-	-
Purchase of treasury stock	-	-	-	-	(101)	(1,383)	-	(1,383)
Stock-based compensation expense	244	-	4,204	-	-	-	-	4,204
Proceeds from exercise of options	57	-	365	-	-	-	-	365
Issuance of common stock, net of issuance costs	900	1	11,150	-	-	-	-	11,151
Balance, September 30, 2020	35,021	$ 4	$ 511,331	$ (292,393)	(3,970)	$ (23,789)	$ 134	$ 195,287

See accompanying notes to condensed consolidated financial statements.

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," "Clarus," "we," "us" or "our") as of September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and 2019, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), instructions to the 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 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 for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be obtained for the year ending December 31, 2020. 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, 2019, filed with the Securities and Exchange Commission (the "SEC") on March 9, 2020.

Clarus, incorporated in Delaware in 1991, acquired Black Diamond Equipment, Ltd. ("Black Diamond Equipment") in May 2010 and changed its name to Black Diamond, Inc. in January 2011. In October 2012, we acquired PIEPS Holding GmbH and its subsidiaries (collectively, "PIEPS").

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"). On November 6, 2018, the Company acquired the assets of SKINourishment, Inc. ("SKINourishment").

On October 2, 2020, the Company completed the acquisition of certain assets and liabilities relating to the Barnes brand of bullets ("Barnes") for a purchase price of $30,500. See Note 15 for a more detailed explanation of the acquisition.

On August 6, 2018, the Company announced that its Board of Directors approved the initiation of a quarterly cash dividend program of $0.025 per share of the Company's common stock (the "Quarterly Cash Dividend") or $0.10 per share on an annualized basis. The declaration and payment of future Quarterly Cash Dividends is subject to the discretion of and approval of the Company's Board of Directors. On May 1, 2020, the Company announced that, in light of the operational impact of the COVID-19 pandemic, its Board of Directors temporarily replaced its Quarterly Cash Dividend with a stock dividend (the "Quarterly Stock Dividend"). On October 19, 2020, the Company announced that its Board of Directors approved the reinstatement of its Quarterly Cash Dividend. The reinstated Quarterly Cash Dividend will be paid on November 20, 2020 to the shareholders of record of the Company's common stock as of the close of business on November 9, 2020.

Nature of Business

Headquartered in Salt Lake City, Utah, Clarus, a company focused on the outdoor and consumer industries, is seeking opportunities to acquire and grow businesses that can generate attractive shareholder returns. The Company has net operating tax loss carryforwards which it is seeking to redeploy to maximize shareholder value. Clarus' primary business is as a leading designer, developer, manufacturer and distributor of outdoor equipment and lifestyle products focused on the climb, ski, mountain, sport and skincare markets. The Company's products are principally sold under the Black Diamond®, Sierra®, PIEPS® and SKINourishment® brand names through outdoor specialty and online retailers, distributors and original equipment manufacturers throughout the U.S. and internationally.

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

Impact of COVID-19

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the U.S. government in March 2020, with governments world-wide implementing safety measures restricting travel and requiring citizen lockdowns and self-confinements for quarantining purposes. This has negatively affected the U.S. and global economy, disrupted global supply chains, and resulted in significant transport restrictions and disruption of financial markets. The impact of this pandemic has created significant uncertainty in the global economy and has affected our business, employees, retail and distribution partners, suppliers, and customers.

The decline in retail demand within our Black Diamond segment over the second half of March 2020 and during the three months ended June 30, 2020 and September 30, 2020, negatively impacted our sales and profitability for the first, second and third quarters of 2020. We also expect an impact on the Company's sales and profitability in future periods. The duration of these trends and the magnitude of such impacts cannot be precisely estimated at this time, as they are affected by a number of factors (some of which are outside management's control), including those presented in Item 1A. Risk Factors of our Quarterly Report for the quarterly period ended March 31, 2020.

We are mitigating some of the negative impacts to our operating results by taking significant actions to improve our current operating results and liquidity position, including drawing on the credit facility, suspending share repurchases and temporarily suspending cash dividends, postponing non-essential capital expenditures, reducing operating costs, modulating production in line with demand, initiating workforce reductions and furloughs, and substantially reducing discretionary spending. We will continue to adjust mitigation measures as needed related to health and safety. Those measures have and might continue to include temporarily suspending manufacturing or retail operations, modifying workspaces, continuing social distancing policies, implementing new personal protective equipment or health screening policies at our facilities, or such other industry best practices needed to continue maintain a healthy and safe environment for our employees amidst the pandemic.

These countermeasures are expected to partially mitigate the impacts of COVID-19 on our full year 2020 financial results. As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess the impact on the Company and respond accordingly.

Sustained adverse impacts to the Company, certain of its suppliers, dealers or customers may also affect the Company's future cash flows, liquidity, and valuation of certain assets and therefore may increase the likelihood of an impairment charge, write-off, or reserve associated with such assets, including goodwill, indefinite and finite-lived intangible assets, property and equipment, inventories, accounts receivable, net deferred tax assets, and other assets.

Use of Estimates

The preparation of financial statements in conformity with 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. Estimates are used to record the allowance for credit losses and doubtful accounts, liabilities for product warranties, excess or obsolete inventory, valuation of deferred tax assets, and valuation of long-lived assets, goodwill 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.

Significant Accounting Policies

Accounting Pronouncements not yet adopted

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as the London Inter-Bank Offered Rate ("LIBOR") which is being phased out in 2021, to alternate reference rates, such as the Secured Overnight Financing Rate ("SOFR"). The standard is currently effective and upon adoption may be applied prospectively to contract modifications made on or before December 31, 2022. The provisions have impact as contract modifications and other changes occur while LIBOR is phased out. The Company is in the process of evaluating the optional relief guidance provided within this ASU. Management will continue its assessment and monitor regulatory developments during the LIBOR transition period.

(in thousands, except per share amounts)

NOTE 2. INVENTORIES

Inventories, as of September 30, 2020 and December 31, 2019, were as follows:

	September 30, 2020	December 31, 2019
Finished goods	$ 51,685	$ 59,452
Work-in-process	4,984	7,474
Raw materials and supplies	8,228	6,506
	$ 64,897	$ 73,432

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment, net, as of September 30, 2020 and December 31, 2019, were as follows:

	September 30, 2020	December 31, 2019
Land	$ 3,160	$ 3,160
Building and improvements	6,958	6,964
Furniture and fixtures	5,654	5,255
Computer hardware and software	5,522	5,298
Machinery and equipment	22,265	21,578
Construction in progress	2,508	1,690
	46,067	43,945
Less accumulated depreciation	(23,376)	(21,026)
	$ 22,691	$ 22,919

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table summarizes the balances in goodwill by segment:

	Black Diamond	Sierra	Total
Balance at December 31, 2019	$ -	$ 18,090	$ 18,090
Balance at September 30, 2020	$ -	$ 18,090	$ 18,090

Indefinite Lived Intangible Assets

The following table summarizes the changes in indefinite lived intangible assets:

Balance at December 31, 2019	$ 41,630
Impact of foreign currency exchange rates	142
Balance at September 30, 2020	$ 41,772

(in thousands, except per share amounts)

Other Intangible Assets, net

The following table summarizes the changes in gross other intangible assets:

Gross balance at December 31, 2019	$	32,917
Impact of foreign currency exchange rates		205
Gross balance at September 30, 2020	$	33,122

Other intangible assets, net of amortization as of September 30, 2020 and December 31, 2019, were as follows:

		September 30, 2020		December 31, 2019
Customer lists and relationships	$	26,109	$	25,995
Product technologies		4,803		4,712
Tradename / trademark		1,263		1,263
Core technologies		947		947
		33,122		32,917
Less accumulated amortization		(19,512)		(17,101)
	$	13,610	$	15,816

NOTE 5. LONG-TERM DEBT

Long-term debt as of September 30, 2020 and December 31, 2019, was as follows:

		September 30, 2020		December 31, 2019
Revolving credit facility (a)	$	21,066	$	22,670
Foreign credit facilities (b)		996		-
Term note (c)		19,000		-
		41,062		22,670
Less current portion		(4,000)		-
	$	37,062	$	22,670

(a) As of September 30, 2020, the Company had drawn $21,066 on the $60,000 revolving commitment that was available under the credit agreement with JPMorgan Chase Bank, N.A., with a maturity date of May 3, 2024. The Company pays interest monthly on any borrowings on the Credit Agreement. As of September 30, 2020 and December 31, 2019, the rate was 1.6875% and 3.3125%, respectively.

The Credit Agreement contains restrictions on the Company’s ability to pay dividends or make distributions or other restricted payments if certain conditions in the Credit Agreement are not fulfilled. The Credit Agreement also includes other customary affirmative and negative covenants, including financial covenants relating to the Company’s consolidated total leverage ratio and fixed charge coverage ratio. The Company was in compliance with the debt covenants set forth in the Credit Agreement as of September 30, 2020.

(b) A foreign subsidiary of the Company has a revolving credit facility with a financial institution which matures on March 31, 2022. The foreign subsidiary pays interest monthly on any borrowings on the credit facility. As of September 30, 2020, the rate was 1.3387%.

(c) Under the Credit Agreement, the Company had access to a term loan facility that was available for drawdown until May 3,

(in thousands, except per share amounts)

2020. On April 30, 2020, the Company borrowed $20,000 under such term loan facility. The Company is required to repay the term loan through quarterly payments of $1,000 each beginning with September 30, 2020, and any remaining obligations will be repaid in full on the maturity date of the Credit Agreement of May 3, 2024. The Company pays interest monthly on any borrowings on the Credit Agreement. As of September 30, 2020, the rate was 1.6875%.

NOTE 6. 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, 2020, the Company's derivative contracts had remaining maturities of less than one and one-half years. The counterparties 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 counterparties is generally limited to the aggregate unrealized loss of all contracts with that counterparty, which is $688 as of September 30, 2020. The Company's exposure of counterparty credit risk is limited to the aggregate unrealized gain on all contracts. At September 30, 2020, there was no such exposure to the counterparties. The Company's derivative counterparties have strong credit ratings and as a result, the Company does not require collateral to facilitate transactions.

The Company held the following contracts designated as hedging instruments as of September 30, 2020 and December 31, 2019:

	September 30, 2020	
	Notional Amount	Latest Maturity
Foreign exchange contracts - Canadian Dollars	$8,279	August 2021
Foreign exchange contracts - Euros	€ 25,962	February 2022

	December 31, 2019	
	Notional Amount	Latest Maturity
Foreign exchange contracts - Canadian Dollars	$15,932	February 2021
Foreign exchange contracts - Euros	€ 18,168	February 2021
Foreign exchange contracts - Swiss Francs	CHF 661	August 2020

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 income (loss) and reclassified to sales in the period the underlying hedged transaction is recognized in earnings. Gains (losses) of $(376) and $261 were reclassified to sales during the three months ended September 30, 2020 and 2019, respectively, and $206 and $844 were reclassified to sales during the nine months ended September 30, 2020 and 2019, respectively.

(in thousands, except per share amounts)

The following table presents the balance sheet classification and fair value of derivative instruments as of September 30, 2020 and December 31, 2019:

	Classification	September 30, 2020	December 31, 2019
Derivative instruments in asset positions:			
Forward exchange contracts	Prepaid and other current assets	$ 89	$ 226
Forward exchange contracts	Other long-term assets	$ 36	$ -
Derivative instruments in liability positions:			
Forward exchange contracts	Accounts payable and accrued liabilities	$ 813	$ 152
Forward exchange contracts	Other long-term liabilities	$ -	$ 29

NOTE 7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) ("AOCI") primarily consists of foreign currency translation adjustments and changes in our forward foreign exchange contracts. The following table sets forth the changes in AOCI, net of tax, for the three months ended September 30, 2020:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of June 30, 2020	$ (320)	$ 247	$ (73)
Other comprehensive income (loss) before reclassifications	807	(886)	(79)
Amounts reclassified from other comprehensive income (loss)	-	286	286
Net current period other comprehensive income (loss)	807	(600)	207
Balance as of September 30, 2020	$ 487	$ (353)	$ 134

The following table sets forth the changes in AOCI, net of tax, for the three months ended September 30, 2019:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of June 30, 2019	$ (70)	$ (184)	$ (254)
Other comprehensive (loss) income before reclassifications	(726)	1,115	389
Amounts reclassified from other comprehensive (loss) income	-	(356)	(356)
Net current period other comprehensive (loss) income	(726)	759	33
Balance as of September 30, 2019	$ (796)	$ 575	$ (221)

(in thousands, except per share amounts)

The following table sets forth the changes in AOCI, net of tax, for the nine months ended September 30, 2020:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of December 31, 2019	$ (286)	$ (17)	$ (303)
Other comprehensive income (loss) before reclassifications	773	(180)	593
Amounts reclassified from other comprehensive income (loss)	-	(156)	(156)
Net current period other comprehensive income (loss)	773	(336)	437
Balance as of September 30, 2020	$ 487	$ (353)	$ 134

The following table sets forth the changes in AOCI, net of tax, for the nine months ended September 30, 2019:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of December 31, 2018	$ 73	$ 404	$ 477
Other comprehensive (loss) income before reclassifications	(869)	954	85
Amounts reclassified from other comprehensive (loss) income	-	(783)	(783)
Net current period other comprehensive (loss) income	(869)	171	(698)
Balance as of September 30, 2019	$ (796)	$ 575	$ (221)

The effects on net income of amounts reclassified from unrealized gains on cash flow hedges for foreign exchange contracts for the three and nine months ended September 30, 2020 and 2019, were as follows:

	Gains reclassified from AOCI to the Consolidated Statements of Comprehensive Income (Loss)			
	Three Months Ended		Nine Months Ended	
Affected line item in the Consolidated Statements of Comprehensive Income (Loss)	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Foreign exchange contracts:				
Sales	$ (376)	$ 261	$ 206	$ 844
Less: Income tax (benefit) expense	(90)	(95)	50	61
Amount reclassified, net of tax	$ (286)	$ 356	$ 156	$ 783
Total reclassifications from AOCI	$ (286)	$ 356	$ 156	$ 783

NOTE 8. 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 that 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.

(in thousands, except per share amounts)

Assets and liabilities measured at fair value on a recurring basis at September 30, 2020 and December 31, 2019 were as follows:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Forward exchange contracts	$ -	$ 125	$ -	$ 125
	$ -	$ 125	$ -	$ 125
Liabilities				
Forward exchange contracts	$ -	$ 813	$ -	$ 813
	$ -	$ 813	$ -	$ 813

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Forward exchange contracts	$ -	$ 226	$ -	$ 226
	$ -	$ 226	$ -	$ 226
Liabilities				
Forward exchange contracts	$ -	$ 181	$ -	$ 181
	$ -	$ 181	$ -	$ 181

Derivative financial instruments are recorded at fair value based on current market pricing models. No nonrecurring fair value measurements existed at September 30, 2020 and December 31, 2019.

NOTE 9. 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 (loss) per share if their effect is anti-dilutive to the loss from continuing operations.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Weighted average shares outstanding - basic	29,983	29,876	29,854	29,841
Effect of dilutive stock awards	1,003	1,201	-	1,158
Weighted average shares outstanding - diluted	30,986	31,077	29,854	30,999
Net income (loss) per share:				
Basic	$ 0.04	$ 0.12	$ (0.05)	$ 0.22
Diluted	0.04	0.11	(0.05)	0.21

For the three months ended September 30, 2020 and 2019, equity awards of 927 and 798, respectively, and for the nine months ended September 30, 2020 and 2019, equity awards of 4,384 and 669, respectively, were anti-dilutive and therefore not included in the calculation of earnings (loss) per share for these periods.

(in thousands, except per share amounts)

NOTE 10. STOCK-BASED COMPENSATION PLAN

Under the Company's current 2015 Stock Incentive Plan (the "2015 Plan"), the Company's 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.

Options Granted:

During the nine months ended September 30, 2020, the Company issued stock options for an aggregate of 613 shares under the 2015 Plan to directors and employees of the Company. Of the 613 options issued, 38 options vest in four equal consecutive quarterly tranches from the date of grant. 145 options issued vest in four equal annual tranches beginning December 31, 2020. 50 options issued vest in five equal annual tranches beginning December 31, 2020. 30 options issued vest in three equal annual tranches beginning December 31, 2020. The remaining 350 options issued vest in three equal annual tranches beginning August 27, 2021.

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:

Number of options	613
Option vesting period	1 - 5 Years
Grant price (per share)	\$9.99 - \$15.00
Dividend yield	0.79% - 1.00%
Expected volatility (a)	40.9% - 44.2%
Risk-free interest rate	0.41% - 0.65%
Expected life (years) (b)	5.31 - 6.38
Weighted average fair value (per share)	\$3.72 - \$4.35

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

(b) The expected term was determined based upon the underlying terms of the awards and the category and employment history of employee award recipient.

The grant date fair value of the stock options granted during the nine months ended September 30, 2020 was $2,581, which will be recognized over the vesting period of the options.

Stock Award Granted:

On September 14, 2020, the Company issued and granted to the Executive Chairman a stock award of 244 shares under the 2015 Plan which vested immediately. The fair value of the stock award was calculated as of the date of grant using the closing market price. The grant date fair value of the stock award granted during the nine months ended September 30, 2020 was $3,314, which was recognized immediately.

Market Condition Restricted Shares Granted:

On August 27, 2020, the Company issued and granted to an employee a restricted stock award of 100 restricted shares under the 2015 Plan, of which 100 restricted shares will vest if, on or before August 27, 2023, the Fair Market Value (as defined in the Plan) of the Company's common stock shall have equaled or exceeded $15.00 per share for twenty consecutive trading days. For computing the fair value of the 100 restricted shares with a market condition, the fair value of the restricted stock award grant has been estimated as of the date of grant using the Monte-Carlo pricing model with the assumptions below.

(in thousands, except per share amounts)

	August 27, 2020
Number issued	100
Vesting period	$15.00 stock price target
Grant price (per share)	$12.72
Dividend yield	0.79%
Expected volatility	41.1%
Risk-free interest rate	0.19%
Expected term (years)	0.52
Weighted average fair value (per share)	$9.91

Using these assumptions, the fair value of the market condition restricted stock award granted on August 27, 2020 was $991.

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, 2020 and 2019 was $4,204 and $678, respectively, and for the nine months ended September 30, 2020 and 2019 was $5,433 and $2,246, respectively. For the three and nine months ended September 30, 2020 and 2019, the majority of stock-based compensation costs were classified as selling, general and administrative expenses.

As of September 30, 2020, there were 1,744 unvested stock options and unrecognized compensation cost of $5,354 related to unvested stock options, as well as 600 unvested restricted stock awards and unrecognized compensation costs of $3,119 related to unvested restricted stock awards.

NOTE 11. COMMITMENTS AND CONTINGENCIES

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.

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.

NOTE 12. INCOME TAXES

The Company's U.S. federal statutory tax rate of 21% and its foreign operations that are considered to be permanently reinvested have statutory tax rates of approximately 25%.

The difference between the Company's estimated effective tax rate and the U.S. federal statutory tax rate of 21% for the three and nine months ended September 30, 2020, was due to permanent book to tax differences primarily related to incentive stock options.

As of December 31, 2019, the Company's gross deferred tax asset was $43,945. The Company had recorded a valuation allowance of $28,632, resulting in a net deferred tax asset of $15,313, before deferred tax liabilities of $8,633. The Company has provided a valuation allowance against a portion of the deferred tax assets as of September 30, 2020 and December 31, 2019, 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 ("NOL") 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.

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.

(in thousands, except per share amounts)

As of December 31, 2019, the Company had NOL and research and experimentation credit for U.S. federal income tax purposes of $131,621 and $4,250, respectively. The Company believes its NOL will offset some of its future U.S. federal income taxes. 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, 2019

Expiration Dates December 31,	Net Operating Loss Amount
2022	$ 111,049
2023	5,712
2024	3,566
2025 and beyond	11,294
Total	$ 131,621

NOTE 13. SEGMENT INFORMATION

We operate our business structure within two segments. 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 including non-cash stock compensation expense. Each segment is described below:

- Our Black Diamond segment, which includes Black Diamond Equipment, PIEPS, and SKINourishment, is a global leader in designing, manufacturing, and marketing innovative outdoor engineered equipment and apparel for climbing, mountaineering, trail running, backpacking, skiing, and a wide range of other year-round outdoor recreation activities. Our Black Diamond segment offers a broad range of products including: high-performance, activity-based apparel (such as shells, insulation, midlayers, pants and logowear); rock-climbing footwear and equipment (such as carabiners, protection devices, harnesses, belay devices, helmets, and ice-climbing gear); technical backpacks and high-end day packs; trekking poles; headlamps and lanterns; gloves and mittens; and skincare and other sport-enhancing products. We also offer advanced skis, ski poles, ski skins, and snow safety products, including avalanche airbag systems, avalanche transceivers, shovels, and probes.

- Our Sierra segment, which includes Sierra, is an iconic American manufacturer of a wide range of high-performance bullets and ammunition for both rifles and pistols. These bullets and ammunition are used for precision target shooting, hunting and military and law enforcement purposes.

As noted above, the Company has a wide variety of technical outdoor equipment and lifestyle products focused on the climb, ski, mountain and sport product categories that are sold to a variety of customers in multiple end markets. While there are multiple products sold, the terms and nature of revenue recognition policy is similar for all segments. The sport product category represents the Sierra segment revenue.

We divide our product offerings into four primary categories of climb, mountain, ski and sport. Revenue by category as a percentage of total consolidated revenues is as follows:

(in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Climb	27 %	30 %	33 %	34 %
Mountain	33 %	37 %	30 %	35 %
Ski	17 %	22 %	15 %	17 %
Sport	23 %	11 %	22 %	14 %

Contract liabilities are recorded as a component of accounts payable and accrued liabilities when customers remit contractual cash payments in advance of us satisfying performance obligations which are satisfied at a future point of time. Contract liabilities were not material at September 30, 2020 and December 31, 2019. Contract liabilities are derecognized when the performance obligation is satisfied. Revenue recognized from satisfaction of performance obligations relating to the advanced payments during the three and nine months ended September 30, 2020 and 2019 were not material. No other material remaining performance obligations exist at September 30, 2020.

Financial information for our segments is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Sales to external customers:				
Black Diamond				
Domestic sales	$ 21,953	$ 23,634	$ 56,381	$ 70,315
International sales	27,411	30,118	58,980	73,683
Total Black Diamond	49,364	53,752	115,361	143,998
Sierra				
Domestic sales	12,733	5,160	27,112	17,490
International sales	2,394	1,291	5,587	6,927
Total Sierra	15,127	6,451	32,699	24,417
Total sales to external customers	64,491	60,203	148,060	168,415
Segment operating income:				
Black Diamond	4,035	5,388	1,709	10,096
Sierra	4,393	735	8,211	3,814
Total segment operating income	8,428	6,123	9,920	13,910
Restructuring charge	-	-	-	(13)
Transaction costs	(1,440)	(37)	(1,870)	(124)
Corporate and other expenses	(4,984)	(2,429)	(9,316)	(6,780)
Interest expense, net	(232)	(353)	(800)	(978)
Income (loss) before income tax	$ 1,772	$ 3,304	$ (2,066)	$ 6,015

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.

(in thousands, except per share amounts)

Total assets by segment, as of September 30, 2020 and December 31, 2019, were as follows:

	September 30, 2020	December 31, 2019
Black Diamond	$ 140,751	$ 147,261
Sierra	74,707	72,104
Corporate	52,380	10,900
	$ 267,838	$ 230,265

Capital expenditures, depreciation and amortization by segment is as follows.

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Capital expenditures:				
Black Diamond	$ 583	$ 673	$ 1,888	$ 1,863
Sierra	1,002	171	1,718	975
Total capital expenditures	$ 1,585	$ 844	$ 3,606	$ 2,838
Depreciation:				
Black Diamond	$ 685	$ 610	$ 2,073	$ 1,852
Sierra	455	480	1,332	1,480
Total depreciation	$ 1,140	$ 1,090	$ 3,405	$ 3,332
Amortization:				
Black Diamond	$ 258	$ 278	$ 803	$ 834
Sierra	495	610	1,487	1,831
Total amortization	$ 753	$ 888	$ 2,290	$ 2,665

NOTE 14. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2020, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with three existing stockholders of the Company. Pursuant to the Purchase Agreement, the Company sold its common stock in a registered direct offering (the "Offering"). Upon the Company's closing of the Offering, the Company paid a fee in the amount of $250 to Kanders & Company, Inc. ("Kanders & Company"), which were deducted from the net proceeds, in consideration of the significant support received by the Company from Kanders & Company in sourcing, structuring, and negotiating the Offering. Mr. Warren B. Kanders, the Company's Executive Chairman of the Board of Directors is a member of the Board of Directors and sole stockholder of Kanders & Company.

Additionally, as of September 30, 2020, the Company recorded a liability in the amount of $500 owed to 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 of Barnes.

NOTE 15. SUBSEQUENT EVENT

Barnes Acquisition

On September 30, 2020, Sierra entered into an Asset Purchase Agreement (the "Barnes Asset Purchase Agreement") with Remington Outdoor Company, Inc. and certain of its subsidiaries (the "Seller"), pursuant to which Sierra agreed to (i) acquire certain assets of the Seller relating to the Barnes brand of bullets ("Barnes"), including equipment, inventory, intellectual property (including exclusive use of Barnes' intellectual property in the all-copper and powdered metallurgy ammunition fields as well as its trademarks) and a leasehold interest in certain real property located in Mona, Utah (collectively, the "Barnes Purchased Assets") and (ii) assume certain liabilities related to the Barnes Purchased Assets in a transaction to be effected in Seller's bankruptcy proceeding under Chapter 11 of title 11 of the United States Code, §§ 101 et seq. (the "Bankruptcy Code") which commenced on July 27, 2020 in the United States Bankruptcy

Court for the Northern District of Alabama (the "Bankruptcy Court"). Pursuant to the Barnes Asset Purchase Agreement, the purchase price to be paid for the Barnes Purchased Assets is $30,500 (the "Barnes Purchase Price"). Sierra paid to Seller a $30,500 deposit to be applied to the Barnes Purchase Price which was recorded in Other long-term assets as of September 30, 2020.

The acquisition of the Barnes Purchased Assets (the "Barnes Acquisition") contemplated by the Barnes Asset Purchase Agreement was subject to a number of closing conditions, including, among others (i) the Sale Order entered on September 30, 2020 by the Bankruptcy Court in the Seller's Chapter 11 case being in effect as of the closing of the Acquisition, and (ii) compliance with the obligations of each party set forth in the Asset Purchase Agreement. The Seller and Sierra have each made representations, warranties and covenants in the Asset Purchase Agreement customary for transactions of this type under the Bankruptcy Code. On October 2, 2020, Sierra completed the acquisition of the Barnes Purchased Assets.

Based upon the timing of the Barnes Acquisition, the initial accounting is not yet complete as the Company gathers additional information related to the Barnes Purchased Assets. The Company is in the process of obtaining third-party valuations of certain intangible assets. The preliminary application of acquisition accounting to the Barnes Purchased Assets, as well as the results of operations of Barnes, will first be reflected in the Company's consolidated financial results as of and for the three and twelve months ending December 31, 2020. The operating results of Barnes are expected to be included within the Sierra segment. Acquisition-related costs for the Barnes Acquisition, which were included in transaction costs during the three and nine months ended September 30, 2020 were $850.

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 Clarus Corporation (which may be referred to as the "Company," "Clarus," "we," "our" or "us") 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 demand on our products; general economic conditions and other factors affecting consumer confidence, preferences, and behavior; disruption and volatility in the global currency, capital and credit markets; the financial strength of the Company's customers; the Company's ability to implement its business strategy; the ability of the Company to execute and integrate acquisitions; changes in governmental regulation, legislation or public opinion relating to the manufacture and sale of bullets and ammunition by our Sierra segment, and the possession and use of firearms and ammunition by our customers; the Company's exposure to product liability or product warranty claims and other loss contingencies; disruptions and other impacts to the Company's business, as a result of the COVID-19 global pandemic and government actions and restrictive measures implemented in response; stability of the Company's manufacturing facilities and suppliers, as well as consumer demand for our products, in light of disease epidemics and health-related concerns such as the COVID-19 global pandemic; the impact that global climate change trends may have on the Company and its suppliers and customers; the Company's ability to protect patents, trademarks and other intellectual property rights; the ability of our information technology systems or information security systems to operate effectively, including as a result of security breaches, viruses, hackers, malware, natural disasters, vendor business interruptions or other causes; our ability to properly maintain, protect, repair or upgrade our information technology systems or information security systems, or problems with our transitioning to upgraded or replacement systems; the impact of adverse publicity about the Company and/or its brands, including without limitation, through social media or in connection with brand damaging events and/or public perception; 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; changes in tax laws and liabilities, tariffs, legal, regulatory, political and economic risks; and the Company's ability to maintain a quarterly dividend. 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

Headquartered in Salt Lake City, Utah, Clarus, a company focused on the outdoor and consumer industries, is seeking opportunities to acquire and grow businesses that can generate attractive shareholder returns. The Company has net operating tax loss carryforwards which it is seeking to redeploy to maximize shareholder value. Clarus' primary business is as a leading designer, developer, manufacturer and distributor of outdoor equipment and lifestyle products focused on the climb, ski, mountain, sport and skincare markets. The Company's products are principally sold under the Black Diamond®, Sierra®, PIEPS® and SKINourishment® brand names through outdoor specialty and online retailers, distributors and original equipment manufacturers throughout the U.S. and internationally.

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

Clarus, incorporated in Delaware in 1991, acquired Black Diamond Equipment, Ltd. ("Black Diamond Equipment") in May 2010 and changed its name to Black Diamond, Inc. in January 2011. In October 2012, we acquired PIEPS Holding GmbH and its subsidiaries (collectively, "PIEPS").

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"). On November 6, 2018, the Company acquired the assets of SKINourishment, Inc. ("SKINourishment").

On October 2, 2020, the Company completed the acquisition of certain assets and liabilities relating to the Barnes brand of bullets ("Barnes") for a purchase price of $30,500. See Note 15 of the unaudited condensed consolidated financial statements for a more detailed explanation of the acquisition.

On August 6, 2018, the Company announced that its Board of Directors approved the initiation of a quarterly cash dividend program of $0.025 per share of the Company's common stock (the "Quarterly Cash Dividend") or $0.10 per share on an annualized basis. The declaration and payment of future Quarterly Cash Dividends is subject to the discretion of and approval of the Company's Board of Directors. On May 1, 2020, the Company announced that, in light of the operational impact of the COVID-19 pandemic, its Board of Directors temporarily replaced its Quarterly Cash Dividend with a stock dividend (the "Quarterly Stock Dividend"). On October 19, 2020, the Company announced that its Board of Directors approved the reinstatement of its Quarterly Cash Dividend. The reinstated Quarterly Cash Dividend will be paid on November 20, 2020 to the shareholders of record of the Company's common stock as of the close of business on November 9, 2020.

Impact of COVID-19

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the U.S. government in March 2020, with governments world-wide implementing safety measures restricting travel and requiring citizen lockdowns and self-confinements for quarantining purposes. This has negatively affected the U.S. and global economy, disrupted global supply chains, and resulted in significant transport restrictions and disruption of financial markets. The impact of this pandemic has created significant uncertainty in the global economy and has affected our business, employees, retail and distribution partners, suppliers, and customers.

The decline in retail demand within our Black Diamond segment over the second half of March 2020 and during the three months ended June 30, 2020 and September 30, 2020, negatively impacted our sales and profitability for the first, second and third quarters of 2020. We also expect an impact on the Company's sales and profitability in future periods. The duration of these trends and the magnitude of such impacts cannot be precisely estimated at this time, as they are affected by a number of factors (some of which are outside management's control), including those presented in Item 1A. Risk Factors of our Quarterly Report for the quarterly period ended March 31, 2020. We generally expect the second quarter of 2020 to be the most significantly impacted with sequential improvement throughout the remainder of the fiscal year.

We are mitigating some of the negative impacts to our operating results by taking significant actions to improve our current operating results and liquidity position, including drawing on the credit facility, suspending share repurchases and temporarily suspending cash dividends, postponing non-essential capital expenditures, reducing operating costs, modulating production in line with demand, initiating workforce reductions and furloughs, and substantially reducing discretionary spending. We will continue to adjust mitigation measures as needed related to health and safety. Those measures have and might continue to include temporarily suspending manufacturing or retail operations, modifying workspaces, continuing social distancing policies, implementing new personal protective equipment or health screening policies at our facilities, or such other industry best practices needed to continue maintain a healthy and safe environment for our employees amidst the pandemic.

These countermeasures are expected to partially mitigate the impacts of COVID-19 on our full year 2020 financial results. As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess the impact on the Company and respond accordingly.

Sustained adverse impacts to the Company, certain of its suppliers, dealers or customers may also affect the Company's future cash flows, liquidity, and valuation of certain assets and therefore may increase the likelihood of an impairment charge, write-off, or reserve associated with such assets, including goodwill, indefinite and finite-lived intangible assets, property and equipment, inventories, accounts receivable, net deferred tax assets, and other assets.

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 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 as described in our Annual Report on Form 10-K for the year ended December 31, 2019.

Accounting Pronouncements Issued Not Yet Adopted

See "Accounting Pronouncements Not Yet Adopted" in Note 1 of the unaudited condensed consolidated financial statements.

(in thousands, except per share amounts)

Results of Operations

Condensed Consolidated Three Months Ended September 30, 2020 Compared to Condensed Consolidated Three Months Ended September 30, 2019

The following presents a discussion of condensed consolidated operations for the three months ended September 30, 2020, compared with the condensed consolidated three months ended September 30, 2019.

	Three Months Ended	
	September 30, 2020	September 30, 2019
Sales		
Domestic sales	$ 34,686	$ 28,794
International sales	29,805	31,409
Total sales	64,491	60,203
Cost of goods sold	42,822	39,646
Gross profit	21,669	20,557
Operating expenses		
Selling, general and administrative	18,674	16,443
Transaction costs	1,440	37
Total operating expenses	20,114	16,480
Operating income	1,555	4,077
Other income (expense)		
Interest expense, net	(232)	(353)
Other, net	449	(420)
Total other income (expense), net	217	(773)
Income before income tax	1,772	3,304
Income tax expense (benefit)	589	(188)
Net income	$ 1,183	$ 3,492

Sales

Consolidated sales increased $4,288, or 7.1%, to $64,491 during the three months ended September 30, 2020, compared to consolidated sales of $60,203 during the three months ended September 30, 2019. The increase in sales was attributable to the increase in the quantity of new and existing sport products sold of $8,676. We also experienced an increase in sales of $279 due to the weakening of the U.S. dollar against foreign currencies during the three months ended September 30, 2020 compared to the prior period. We believe these increases were partially offset by lower consumer demand related to the COVID-19 pandemic, which drove a decrease in the quantity of new and existing climb, mountain, and ski products sold during the period.

Consolidated domestic sales increased $5,892, or 20.5%, to $34,686 during the three months ended September 30, 2020, compared to consolidated domestic sales of $28,794 during the three months ended September 30, 2019. The increase in sales was attributable to the increase in the quantity of new and existing sport products sold of $7,573. We believe the increase in domestic sales was partially offset by lower consumer demand related to the COVID-19 pandemic, which drove a decrease in the quantity of new and existing climb, mountain, and ski products sold during the period.

Consolidated international sales decreased $1,604, or 5.1%, to $29,805 during the three months ended September 30, 2020, compared to consolidated international sales of $31,409 during the three months ended September 30, 2019. We believe the decrease in international sales was attributable to lower consumer demand related to the COVID-19 pandemic, which drove a decrease in the quantity of new and existing climb, mountain, and ski products sold during the period. The decrease was partially offset by an increase in the quantity of new and existing sport products sold of $1,103 and an increase in sales of $279 due to the weakening of the U.S. dollar against foreign currencies during the three months ended September 30, 2020 compared to the prior period.

Cost of Goods Sold

Consolidated cost of goods sold increased $3,176, or 8.0%, to $42,822 during the three months ended September 30, 2020, compared to consolidated cost of goods sold of $39,646 during the three months ended September 30, 2019. The increase in cost of goods sold was primarily attributable to an increase in the number of units sold.

Gross Profit

Consolidated gross profit increased $1,112 or 5.4%, to $21,669 during the three months ended September 30, 2020, compared to consolidated gross profit of $20,557 during the three months ended September 30, 2019. Consolidated gross margin was 33.6% during the three months ended September 30, 2020, compared to a consolidated gross margin of 34.1% during the three months ended September 30, 2019. Consolidated gross margin during the three months ended September 30, 2020, decreased compared to the prior year due to unfavorable impacts on our supply chain and logistic activities due to the COVID-19 pandemic.

Selling, General and Administrative

Consolidated selling, general, and administrative expenses increased $2,231, or 13.6%, to $18,674 during the three months ended September 30, 2020, compared to consolidated selling, general and administrative expenses of $16,443 during the three months ended September 30, 2019. The increase in selling, general and administrative expenses reflect an increase of stock compensation of $3,526 during the three months ended September 30, 2020 compared to the prior year. The increase was partially offset by the cost-saving initiatives implemented in response to the COVID-19 pandemic, primarily related to reductions within sales, marketing, research and development, and brand supporting activities.

Transaction Costs

Consolidated transaction expense increased to $1,440 during the three months ended September 30, 2020, compared to consolidated transaction costs of $37 during the three months ended September 30, 2019, which consisted of expenses related to the Company's various acquisition efforts, including acquiring the Barnes Purchased Assets.

Interest Expense, net

Consolidated interest expense, net during the three months ended September 30, 2020 remained relatively consistent with consolidated interest expense, net, during the three months ended September 30, 2019.

Other, net

Consolidated other, net, income increased $869, or 206.9%, to $449 during the three months ended September 30, 2020, compared to consolidated other, net expense of $420 during the three months ended September 30, 2019. The increase in other, net, was primarily attributable to an increase in remeasurement gains recognized on the Company's foreign denominated accounts receivable and accounts payable. This decrease was partially offset by losses on mark-to-market adjustments on non-hedged foreign currency contracts.

Income Taxes

Consolidated income tax expense increased $777, or 413.3%, to $589 during the three months ended September 30, 2020, compared to a consolidated income tax benefit of $188 during the same period in 2019. Our effective income tax rate was 33.2% for the three months ended September 30, 2020, and was higher compared to the statutory tax rates due to permanent book to tax differences primarily related to incentive stock options. For the three months ended September 30, 2019, our effective income tax rate was 5.7% and was lower compared to the statutory tax rates due to a stock compensation windfall.

(in thousands, except per share amounts)

Results of Operations

Condensed Consolidated Nine Months Ended September 30, 2020 Compared to Condensed Consolidated Nine Months Ended September 30, 2019

The following presents a discussion of condensed consolidated operations for the nine months ended September 30, 2020, compared with the condensed consolidated nine months ended September 30, 2019.

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Sales		
Domestic sales	$ 83,493	$ 87,805
International sales	64,567	80,610
Total sales	148,060	168,415
Cost of goods sold	97,243	109,810
Gross profit	50,817	58,605
Operating expenses		
Selling, general and administrative	50,537	51,215
Restructuring charge	-	13
Transaction costs	1,870	124
Total operating expenses	52,407	51,352
Operating (loss) income	(1,590)	7,253
Other expense		
Interest expense, net	(800)	(978)
Other, net	324	(260)
Total other expense, net	(476)	(1,238)
(Loss) income before income tax	(2,066)	6,015
Income tax benefit	(542)	(570)
Net (loss) income	$ (1,524)	$ 6,585

Sales

Consolidated sales decreased $20,355, or 12.1%, to $148,060 during the nine months ended September 30, 2020, compared to consolidated sales of $168,415 during the nine months ended September 30, 2019. We believe lower consumer demand related to the COVID-19 pandemic drove a decrease in the quantity of new and existing climb, mountain, and ski products sold during the period. We also experienced a decrease in sales of $297 due to the strengthening of the U.S. dollar against foreign currencies during the nine months ended September 30, 2020 compared to the prior period. These decreases were partially offset by an increase in the quantity of new and existing sport products sold of $8,282.

Consolidated domestic sales decreased $4,312, or 4.9%, to $83,493 during the nine months ended September 30, 2020, compared to consolidated domestic sales of $87,805 during the nine months ended September 30, 2019. We believe the decrease in domestic sales was attributable to lower consumer demand related to the COVID-19 pandemic, which drove a decrease in the quantity of new and existing climb, mountain, and ski products sold during the period. This decrease was partially offset by an increase in the quantity of new and existing sport products sold of $9,622.

Consolidated international sales decreased $16,043, or 19.9%, to $64,567 during the nine months ended September 30, 2020, compared to consolidated international sales of $80,610 during the nine months ended September 30, 2019. We believe the decrease in international sales was attributable to lower consumer demand related to the COVID-19 pandemic, which drove a decrease in the quantity of new and existing climb, mountain, and ski products sold during the period. We also experienced a decrease in the quantity of new and existing sport products sold of $1,340 and a decrease in sales of $297 due to the strengthening of the U.S. dollar against foreign currencies during the nine months ended September 30, 2020 compared to the prior period.

Cost of Goods Sold

Consolidated cost of goods sold decreased $12,567, or 11.4%, to $97,243 during the nine months ended September 30, 2020, compared to consolidated cost of goods sold of $109,810 during the nine months ended September 30, 2019. The decrease in cost of goods sold was primarily attributable to a decrease in the number of units sold due to lower consumer demand related to the COVID-19 pandemic.

Gross Profit

Consolidated gross profit decreased $7,788 or 13.3%, to $50,817 during the nine months ended September 30, 2020, compared to consolidated gross profit of $58,605 during the nine months ended September 30, 2019. Consolidated gross margin was 34.3% during the nine months ended September 30, 2020, compared to a consolidated gross margin of 34.8% during the nine months ended September 30, 2019. Consolidated gross margin during the nine months ended September 30, 2020, decreased compared to the prior year due to unfavorable impacts on our supply chain and logistic activities due to the COVID-19 pandemic, along with negative impacts from foreign currency and tariffs.

Selling, General and Administrative

Consolidated selling, general, and administrative expenses decreased $678, or 1.3%, to $50,537 during the nine months ended September 30, 2020, compared to consolidated selling, general and administrative expenses of $51,215 during the nine months ended September 30, 2019. The decrease in selling, general and administrative expenses reflect the cost-saving initiatives implemented in response to the COVID-19 pandemic, primarily related to reductions within sales, marketing, and logistics. The decrease was partially offset by an increase of stock compensation of $3,187 during the nine months ended September 30, 2020 compared to the prior year.

Restructuring Charges

Consolidated restructuring expense decreased to $0 during the nine months ended September 30, 2020, compared to consolidated restructuring expense of $13 during the nine months ended September 30, 2019. Restructuring expenses incurred during the nine months ended September 30, 2019, 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 $1,870 during the nine months ended September 30, 2020, compared to consolidated transaction costs of $124 during the nine months ended September 30, 2019, which consisted of expenses related to the Company’s various acquisition efforts, including acquiring the Barnes Purchased Assets.

Interest Expense, net

Consolidated interest expense, net during the nine months ended September 30, 2020 remained relatively consistent with consolidated interest expense, net, during the nine months ended September 30, 2019.

Other, net

Consolidated other, net, increased $584, or 224.6%, to income of $324 during the nine months ended September 30, 2020, compared to consolidated other, net expense of $260 during the nine months ended September 30, 2019. The increase in other, net, was primarily attributable to an increase in remeasurement gains recognized on the Company’s foreign denominated accounts receivable and accounts payable. This increase was partially offset by losses on mark-to-market adjustments on non-hedged foreign currency contracts.

Income Taxes

Consolidated income tax benefit decreased $28, or 4.9%, to $542 during the nine months ended September 30, 2020, compared to a consolidated income tax benefit of $570 during the same period in 2019. Our effective income tax rate was 26.2% for the nine months ended September 30, 2020, and was higher compared to the statutory tax rates due to permanent book to tax differences primarily related to incentive stock options. For the nine months ended September 30, 2019, our effective income tax rate was 9.5% and is lower compared to the statutory tax rates due to a discrete benefit associated with a release of a tax reserve. 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.

(in thousands, except per share amounts)

Liquidity and Capital Resources

Condensed Consolidated Nine Months Ended September 30, 2020 Compared to Condensed Consolidated Nine Months Ended September 30, 2019

Our primary ongoing funding requirements are for working capital, expansion of our operations (both organically and through acquisitions) and general corporate needs, as well as investing activities associated with the expansion into new product categories. We plan to fund these activities through a combination of our future operating cash flows and revolving credit facility which had approximately $38,900 available to borrow at September 30, 2020. 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. However, as the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. The COVID-19 pandemic has negatively affected the U.S. and global economies, disrupted global supply chains, and resulted in significant travel and transport restrictions and disruption of financial markets. An extended period of global supply chain and economic disruption could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition. Given the economic uncertainty as a result of the pandemic, we have taken actions to improve our current liquidity position, including drawing on the credit facility, suspending share repurchases and cash dividends, postponing nonessential capital expenditures, reducing operating costs, modulating production in line with demand, initiating workforce reductions and furloughs, and substantially reducing discretionary spending.

Further, we borrowed $20,000 under the term loan portion of the Credit Agreement to increase our overall liquidity. The Company is required to repay the term loan through quarterly payments of $1,000 each beginning with September 30, 2020, and any remaining obligations will be repaid in full on the maturity date of the Credit Agreement of May 3, 2024.

Additionally, during the three months ended September 30, 2020, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with three existing stockholders of the Company. Pursuant to the Securities Purchase Agreement, the Company sold its common stock in a registered direct offering (the "Offering"). The net proceeds to the Company from the Offering were $11,151, after deducting estimated Offering expenses payable by the Company, and were used to pay down amounts outstanding on our revolving loan commitment. The Offering was made pursuant to the Company's effective registration statement on Form S-3 (File No. 333-218751), previously filed with and declared effective by the Securities and Exchange Commission

At September 30, 2020, we had total cash of $17,027, compared to a cash balance of $1,703 at December 31, 2019, which was substantially controlled by the Company's U.S. entities. At September 30, 2020, the Company had $6,093 of the $17,027 in cash held by foreign entities, of which $762 is considered permanently reinvested.

The following presents a discussion of cash flows for the condensed consolidated nine months ended September 30, 2020 compared with the condensed consolidated nine months ended September 30, 2019.

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Net cash provided by operating activities	$ 21,048	$ 5,635
Net cash used in investing activities	(33,779)	(2,818)
Net cash provided by (used in) financing activities	27,956	(3,379)
Effect of foreign exchange rates on cash	99	(73)
Change in cash	15,324	(635)
Cash, beginning of period	1,703	2,486
Cash, end of period	$ 17,027	$ 1,851

(in thousands, except per share amounts)

Net Cash From Operating Activities

Consolidated net cash provided by operating activities was $21,048 during the nine months ended September 30, 2020, compared to $5,635 during the nine months ended September 30, 2019. The increase in net cash provided by operating activities during 2020 is primarily due to an increase in net operating assets, or non-cash working capital, of $20,915, and stock compensation of $3,187, partially offset by a decrease in net income during the nine months ended September 30, 2020, compared to the same period in 2019.

Free cash flow, defined as net cash provided by operating activities less capital expenditures, of $17,442 was generated during the nine months ended September 30, 2020 compared to $2,797 generated during the same period in 2019. 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, 2020	September 30, 2019
Net cash provided by operating activities	$ 21,048	$ 5,635
Purchase of property and equipment	(3,606)	(2,838)
Free cash flow	$ 17,442	$ 2,797

Net Cash From Investing Activities

Consolidated net cash used in investing activities was $33,779 during the nine months ended September 30, 2020, compared to $2,818 during the nine months ended September 30, 2019. The increase in cash used during the nine months ended September 30, 2020 is due to a deposit the Company paid to be applied to the purchase of the assets of the Barnes brand as well as an increase in purchases of property and equipment, compared to the same period in 2019.

Net Cash From Financing Activities

Consolidated net cash provided by financing activities was $27,956 during the nine months ended September 30, 2020, compared to consolidated net cash used of $3,379 during the nine months ended September 30, 2019. The increase in cash provided during the nine months ended September 30, 2020 compared to the same period in 2019 was primarily due to the proceeds of $20,000 borrowed under the term loan and the net proceeds from the Offering of $11,151. These increases were partially offset by net repayments to the revolving line of credit and repayments of the term loan.

Net Operating Loss

As of December 31, 2019, the Company had net operating loss and research and experimentation credit for U.S. federal income tax purposes of $131,621 and $4,250, respectively. The Company believes its U.S. Federal NOL will offset some of its future U.S. Federal income taxes. 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. $131,621 of net operating losses available to offset taxable income does not expire until 2022 or later, subject to compliance with Section 382 of the Internal Revenue Code of 1986, as amended.

As of December 31, 2019, the Company's gross deferred tax asset was $43,945. The Company has recorded a valuation allowance of $28,632, resulting in a net deferred tax asset of $15,313, before deferred tax liabilities of $8,633. The Company has provided a valuation allowance against a portion of the net deferred tax assets as of September 30, 2020 and December 31, 2019, 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.

Credit Agreement

On May 3, 2019, the Company together with certain of its direct and indirect domestic subsidiaries (the "Borrowers") and the other loan parties party thereto entered into a Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders from time to time party thereto, for borrowings of up to $60,000 under a revolving credit facility (including up to $5,000 for letters of credit), and borrowings of up to $40,000 under a term loan facility that is available to be drawn until May 3, 2020. The Credit Agreement also permits the Borrowers, subject to certain requirements, to arrange with lenders for an aggregate of up to $50,000 of additional revolving and/or term loan commitments (both of which are currently uncommitted), for potential aggregate revolving and term loan commitments under the Credit Agreement of up to $150,000. The Credit Agreement matures on May 3, 2024.

The Borrowers may elect to have the revolving and term loans under the Credit Agreement bear interest at an alternate base rate or a Eurodollar rate plus an applicable rate. The applicable rate for these borrowings will range from 0.50% to 1.25% per annum, in the case of alternate base rate borrowings, and 1.50% to 2.25% per annum, in the case of Eurodollar borrowings. The applicable rate was initially 0.875% per annum, in the case of alternate base rate borrowings, and 1.875% per annum, in the case of Eurodollar borrowings, however, it may be adjusted from time to time based upon the level of the Company's consolidated total leverage ratio. The Credit Agreement also requires the Borrowers to pay a commitment fee on the unused portion of the revolving and term loan commitments. Such commitment fee will range between 0.15% and 0.25% per annum, and is also based upon the level of the Company's consolidated total leverage ratio.

As of September 30, 2020, the Company had drawn approximately $21,066 of the $60,000 revolving loan commitment that was available for borrowing under the Credit Agreement, and $19,000 outstanding under the term loan commitment. As of September 30, 2020, the interest rate for each loan was 1.6875%. On April 30, 2020, the Company borrowed $20,000 under the term loan facility and used the proceeds to pay down amounts outstanding under the revolving portion of the Credit Agreement. The Company is required to repay the term loan through quarterly payments of $1,000 each beginning with September 30, 2020, and any remaining obligations will be repaid in full on the maturity date of the Credit Agreement of May 3, 2024.

The Credit Agreement contains restrictions on the Company's ability to pay dividends or make distributions or other restricted payments if certain conditions in the Credit Agreement are not fulfilled. The Credit Agreement also includes other customary affirmative and negative covenants, including financial covenants relating to the Company's consolidated total leverage ratio and fixed charge coverage ratio. The Company was in compliance with the debt covenants set forth in the Credit Agreement as of September 30, 2020.

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, 2019.

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-15I and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of September 30, 2020, 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, 2020, were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the nine months ended September 30, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

Except for the risk factors discussed below and the risk factors presented in Item 1A. Risk Factors of our Quarterly Report for the quarterly period ended March 31, 2020, 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, 2019.

Breaches of our information systems could adversely affect our reputation, disrupt our operations, and result in increased costs and loss of revenue.

There have been an increasing number of recent global cyber security incidents affecting companies, including us. These incidents could cause operational failures or compromise sensitive or confidential corporate and personal data. Because we are interconnected with and dependent on third-party vendors, we could also be adversely affected if we or any of our vendors are subject to a successful cyber-attack or other information security event. Such cyber security incidents may result in the loss or compromise of customer, financial, or operational data; disruption of billing, collections, or normal operating activities; disruption of electronic monitoring and control of operational systems; and delays in financial reporting and other management functions, and our acquisition activities could increase such risk. There can be no guarantees that such a cyber incident would not result in the unauthorized access to or the disclosure of customer data, our trade secrets or other intellectual property, or personal information of our employees. There can be no guarantee that the disclosure of any of this information would not have a material adverse effect on our business, reputation, financial condition, and results of operations. We continually evaluate our systems and may implement further controls and additional preventative actions to further strengthen our systems against attacks. We cannot assure you that such measures will provide absolute security, that we will be able to react in a timely manner, or that our remediation efforts following past or future attacks will be successful. Possible impacts associated with a cyber security incident may include, among other things, business interruption, ransom payments, the identification of material weaknesses or significant deficiencies, remediation costs related to lost, stolen, or compromised data; repairs to data processing systems; increased cyber security protection costs; reputational damage; and adverse effects on our compliance with privacy and other laws and regulations that are applicable to us. We have insurance coverage to protect us against losses from certain cyber security incidents, including liability for third-party vendors who mishandle our information. However, there can be no guarantee that every potential loss due to cyber-attack or theft of information has been insured against, nor that the limits of the insurance we have acquired will be sufficient to cover all such losses.

Adverse publicity about the Company and/or its brands, including without limitation, through social media or in connection with brand damaging events and/or public perception could negatively impact our business.

Negative claims or publicity involving us, our board of directors, our brands, our products, services and experiences, consumer data, or any of our key employees, endorsers, or suppliers could seriously damage our reputation and the image of our brands, regardless of whether such claims are accurate.

Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Adverse publicity could also damage our reputation and the image of our brands, undermine consumer confidence in us and reduce long-term demand for our products, even if such adverse publicity is unfounded or not material to our operations. If the reputation, culture or image of any of our brands is tarnished or if we receive negative publicity, then our sales, financial condition and results of operations could be materially and adversely affected.

ITEM 6. EXHIBITS

Exhibit	Description
10.1	Employment Agreement, dated as of August 27, 2020, between Clarus Corporation and Aaron Kuehne (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 1, 2020 and incorporated herein by reference).
10.2	Securities Purchase Agreement, September 25, 2020, by and between Clarus Corporation and the Purchasers thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 29, 2020 and incorporated herein by reference).
10.3	Letter to Brown Advisory Incorporated dated September 25, 2020 (filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the SEC on September 29, 2020 and incorporated herein by reference).
10.4	Asset Purchase Agreement dated September 30, 2020, by and among Sierra Bullets, L.L.C., as Buyer, and Remington Outdoor Company, Inc., certain of its subsidiaries, as Seller (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2020 and incorporated herein by reference).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
101.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

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 9, 2020	By: */s/ Warren B. Kanders*
	Name: Warren B. Kanders
	Title: Executive Chairman (Principal Executive Officer)
Date: November 9, 2020	By: */s/ Aaron J. Kuehne*
	Name: Aaron J. Kuehne
	Title: Chief Administrative Officer and Chief Financial Officer (Principal Financial Officer)

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 9, 2020

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

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 9, 2020

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of Clarus Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2020 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 9, 2020

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of Clarus Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2020 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 9, 2020

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