
**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, 2023**

or

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

For the transition period from _____ to _____

Commission File Number: **001-34767**

CLARUS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

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

(Address of principal executive offices)

58-1972600

(I.R.S. Employer
Identification Number)

84124

(Zip code)

(801) 278-5552

(Registrant's telephone number, including area code)

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

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

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

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

As of November 1, 2023, there were 38,149,409 shares of common stock, par value \$0.0001, outstanding.

INDEX

CLARUS CORPORATION

	Page
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	3
<u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets – September 30, 2023 and December 31, 2022</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss – Three months ended September 30, 2023 and 2022</u>	4
<u>Condensed Consolidated Statements of Comprehensive Loss – Nine months ended September 30, 2023 and 2022</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2023 and 2022</u>	6
<u>Condensed Consolidated Statements of Stockholders' Equity – Three and Nine months ended September 30, 2023 and 2022</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2.</u>	28
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	40
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	41
<u>Controls and Procedures</u>	
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	42
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	43
<u>Risk Factors</u>	
<u>Item 6.</u>	46
<u>Exhibits</u>	
<u>Signature Page</u>	47

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash	\$ 8,024	\$ 12,061
Accounts receivable, less allowance for credit losses of \$1,576 and \$1,211	72,601	66,553
Inventories	140,460	147,072
Prepaid and other current assets	7,155	9,899
Income tax receivable	2,444	3,034
Total current assets	230,684	238,619
Property and equipment, net	41,131	43,010
Other intangible assets, net	44,305	55,255
Indefinite-lived intangible assets	80,936	82,901
Goodwill	61,895	62,993
Deferred income taxes	20,333	17,912
Other long-term assets	17,942	17,455
Total assets	\$ 497,226	\$ 518,145
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 28,864	\$ 27,052
Accrued liabilities	22,435	25,170
Income tax payable	-	421
Current portion of long-term debt	12,566	11,952
Total current liabilities	63,865	64,595
Long-term debt, net	110,077	127,082
Deferred income taxes	17,534	18,506
Other long-term liabilities	14,480	15,854
Total liabilities	205,956	226,037
Stockholders' Equity		
Preferred stock, \$0.0001 par value per share; 5,000 shares authorized; none issued	-	-
Common stock, \$0.0001 par value per share; 100,000 shares authorized; 42,582 and 41,637 issued and 37,970 and 37,048 outstanding, respectively	4	4
Additional paid in capital	688,878	679,339
Accumulated deficit	(341,396)	(336,843)
Treasury stock, at cost	(32,929)	(32,707)
Accumulated other comprehensive loss	(23,287)	(17,685)
Total stockholders' equity	291,270	292,108
Total liabilities and stockholders' equity	\$ 497,226	\$ 518,145

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	September 30, 2023	September 30, 2022
Sales		
Domestic sales	\$ 44,152	\$ 55,540
International sales	55,923	60,175
Total sales	100,075	115,715
Cost of goods sold	64,527	76,291
Gross profit	35,548	39,424
Operating expenses		
Selling, general and administrative	31,790	32,340
Restructuring charges	1,099	-
Transaction costs	842	858
Contingent consideration expense	-	104
Total operating expenses	33,731	33,302
Operating income	1,817	6,122
Other expense		
Interest expense, net	(2,842)	(2,216)
Other, net	(443)	(1,238)
Total other expense, net	(3,285)	(3,454)
(Loss) income before income tax	(1,468)	2,668
Income tax benefit	(204)	(83)
Net (loss) income	(1,264)	2,751
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(3,539)	(11,386)
Unrealized gain on hedging activities	401	268
Other comprehensive loss	(3,138)	(11,118)
Comprehensive loss	<u>\$ (4,402)</u>	<u>\$ (8,367)</u>
Net (loss) income per share:		
Basic	\$ (0.03)	\$ 0.07
Diluted	(0.03)	0.07
Weighted average shares outstanding:		
Basic	37,470	37,369
Diluted	37,470	39,580

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Sales		
Domestic sales	\$ 135,724	\$ 181,920
International sales	145,463	162,004
Total sales	281,187	343,924
Cost of goods sold	178,864	216,566
Gross profit	102,323	127,358
Operating expenses		
Selling, general and administrative	94,809	101,959
Restructuring charges	1,835	-
Transaction costs	975	2,880
Contingent consideration (benefit) expense	(1,565)	493
Total operating expenses	96,054	105,332
Operating income	6,269	22,026
Other expense		
Interest expense, net	(8,445)	(5,060)
Other, net	(134)	(2,648)
Total other expense, net	(8,579)	(7,708)
(Loss) income before income tax	(2,310)	14,318
Income tax (benefit) expense	(553)	2,494
Net (loss) income	(1,757)	11,824
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(5,949)	(22,941)
Unrealized gain on hedging activities	347	976
Other comprehensive loss	(5,602)	(21,965)
Comprehensive loss	<u>\$ (7,359)</u>	<u>\$ (10,141)</u>
Net (loss) income per share:		
Basic	\$ (0.05)	\$ 0.32
Diluted	(0.05)	0.30
Weighted average shares outstanding:		
Basic	37,267	37,256
Diluted	37,267	39,694

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Cash Flows From Operating Activities:		
Net (loss) income	\$ (1,757)	\$ 11,824
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	5,675	5,800
Amortization of other intangible assets	9,560	11,740
Amortization of debt issuance costs	696	593
Gain on disposition of property and equipment	(43)	(41)
Noncash lease expense	2,290	2,412
Contingent consideration (benefit) expense	(1,565)	468
Stock-based compensation	4,037	9,142
Deferred income taxes	(2,509)	(410)
Changes in operating assets and liabilities:		
Accounts receivable	(6,247)	(24,941)
Inventories	5,408	(30,243)
Prepaid and other assets	3,239	(2,126)
Accounts payable	2,165	4,662
Accrued liabilities	(3,589)	(2,756)
Income taxes	68	(3,870)
Net cash provided by (used in) operating activities	17,428	(17,746)
Cash Flows From Investing Activities:		
Proceeds from disposition of property and equipment	196	438
Purchase of intangible assets	(250)	-
Purchases of property and equipment	(4,495)	(6,216)
Net cash used in investing activities	(4,549)	(5,778)
Cash Flows From Financing Activities:		
Proceeds from revolving credit facilities	29,195	98,991
Repayments on revolving credit facilities	(37,836)	(72,804)
Repayments on term loans	(7,967)	(125,191)
Proceeds from issuance of term loans	-	125,000
Payment of debt issuance costs	-	(1,385)
Purchase of treasury stock	(222)	(8,267)
Proceeds from exercise of options	3,435	2,721
Cash dividends paid	(2,796)	(2,795)
Payment of contingent consideration	-	(943)
Net cash (used in) provided by financing activities	(16,191)	15,327
Effect of foreign exchange rates on cash	(725)	(903)
Change in cash	(4,037)	(9,100)
Cash, beginning of year	12,061	19,465
Cash, end of period	<u>\$ 8,024</u>	<u>\$ 10,365</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	\$ 1,831	\$ 7,155
Cash paid for interest	\$ 7,736	\$ 4,107
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Shares issued for business acquisitions	\$ 2,067	\$ 2,261
Property and equipment purchased with accounts payable	\$ 232	\$ 127
Intangible assets purchased with accounts payable	\$ 250	\$ -
Lease liabilities arising from obtaining right of use assets	\$ 4,211	\$ 1,324

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	Accumulated	Treasury Stock		Accumulated	Total
	Shares	Amount	Paid-In	Deficit	Shares	Amount	Other	Stockholders'
			Capital				Comprehensive	Equity
							Income (Loss)	
Balance, December 31, 2021	41,105	\$ 4	\$ 662,996	\$ (263,342)	(4,011)	\$ (24,440)	\$ (5,050)	\$ 370,168
Net income	-	-	-	5,309	-	-	-	5,309
Other comprehensive income	-	-	-	-	-	-	6,163	6,163
Cash dividends (\$0.025 per share)	-	-	-	(930)	-	-	-	(930)
Purchase of treasury stock	-	-	-	-	(51)	(1,097)	-	(1,097)
Stock-based compensation expense	-	-	3,367	-	-	-	-	3,367
Proceeds from exercise of options	167	-	126	-	-	-	-	126
Balance, March 31, 2022	41,272	\$ 4	\$ 666,489	\$ (258,963)	(4,062)	\$ (25,537)	\$ 1,113	\$ 383,106
Net income	-	-	-	3,764	-	-	-	3,764
Other comprehensive loss	-	-	-	-	-	-	(17,010)	(17,010)
Cash dividends (\$0.025 per share)	-	-	-	(931)	-	-	-	(931)
Stock-based compensation expense	-	-	3,555	-	-	-	-	3,555
Proceeds from exercise of options	56	-	542	-	-	-	-	542
Balance, June 30, 2022	41,328	\$ 4	\$ 670,586	\$ (256,130)	(4,062)	\$ (25,537)	\$ (15,897)	\$ 373,026
Net income	-	-	-	2,751	-	-	-	2,751
Other comprehensive loss	-	-	-	-	-	-	(11,118)	(11,118)
Cash dividends (\$0.025 per share)	-	-	-	(934)	-	-	-	(934)
Purchase of treasury stock	-	-	-	-	(527)	(7,170)	-	(7,170)
Stock-based compensation expense	-	-	2,220	-	-	-	-	2,220
Proceeds from exercise of options	189	-	2,053	-	-	-	-	2,053
Shares issued in business acquisition	108	-	2,261	-	-	-	-	2,261
Balance, September 30, 2022	41,625	\$ 4	\$ 677,120	\$ (254,313)	(4,589)	\$ (32,707)	\$ (27,015)	\$ 363,089

[Table of Contents](#)

	Common Stock		Additional	Accumulated	Treasury Stock		Accumulated	Total
	Shares	Amount	Paid-In	Deficit	Shares	Amount	Other	Stockholders'
			Capital				Comprehensive	Equity
							Loss	
Balance, December 31, 2022	41,637	\$ 4	\$ 679,339	\$ (336,843)	(4,589)	\$ (32,707)	\$ (17,685)	\$ 292,108
Net income	-	-	-	1,598	-	-	-	1,598
Other comprehensive loss	-	-	-	-	-	-	(1,100)	(1,100)
Cash dividends (\$0.025 per share)	-	-	-	(930)	-	-	-	(930)
Purchase of treasury stock	-	-	-	-	(12)	(118)	-	(118)
Stock-based compensation expense	-	-	1,334	-	-	-	-	1,334
Proceeds from exercise of options	154	-	-	-	-	-	-	-
Balance, March 31, 2023	<u>41,791</u>	<u>\$ 4</u>	<u>\$ 680,673</u>	<u>\$ (336,175)</u>	<u>(4,601)</u>	<u>\$ (32,825)</u>	<u>\$ (18,785)</u>	<u>\$ 292,892</u>
Net loss	-	-	-	(2,091)	-	-	-	(2,091)
Other comprehensive loss	-	-	-	-	-	-	(1,364)	(1,364)
Cash dividends (\$0.025 per share)	-	-	-	(930)	-	-	-	(930)
Purchase of treasury stock	-	-	-	-	(11)	(104)	-	(104)
Stock-based compensation expense	-	-	1,535	-	-	-	-	1,535
Proceeds from exercise of options	42	-	35	-	-	-	-	35
Balance, June 30, 2023	<u>41,833</u>	<u>\$ 4</u>	<u>\$ 682,243</u>	<u>\$ (339,196)</u>	<u>(4,612)</u>	<u>\$ (32,929)</u>	<u>\$ (20,149)</u>	<u>\$ 289,973</u>
Net loss	-	-	-	(1,264)	-	-	-	(1,264)
Other comprehensive loss	-	-	-	-	-	-	(3,138)	(3,138)
Cash dividends (\$0.025 per share)	-	-	-	(936)	-	-	-	(936)
Stock-based compensation expense	-	-	1,168	-	-	-	-	1,168
Proceeds from exercise of options	500	-	3,400	-	-	-	-	3,400
Shares issued in business acquisition	249	-	2,067	-	-	-	-	2,067
Balance, September 30, 2023	<u>42,582</u>	<u>\$ 4</u>	<u>\$ 688,878</u>	<u>\$ (341,396)</u>	<u>(4,612)</u>	<u>\$ (32,929)</u>	<u>\$ (23,287)</u>	<u>\$ 291,270</u>

See accompanying notes to condensed consolidated financial statements.

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

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

The accompanying unaudited condensed consolidated financial statements of Clarus Corporation and subsidiaries (which may be referred to as the “Company,” “Clarus,” “we,” “us” or “our”) as of September 30, 2023 and December 31, 2022 and for the three and nine months ended September 30, 2023 and 2022, 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, 2023 are not necessarily indicative of the results to be obtained for the year ending December 31, 2023. 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, 2022, filed with the Securities and Exchange Commission (the “SEC”) on February 27, 2023.

Nature of Business

Headquartered in Salt Lake City, Utah, we are a global leading designer, developer, manufacturer and distributor of best-in-class outdoor equipment and lifestyle products focused on the outdoor and consumer enthusiast markets. Our mission is to identify, acquire and grow outdoor “super fan” brands through our unique “innovate and accelerate” strategy. We define a “super fan” brand as a brand that creates the world’s pre-eminent, performance-defining product that the best-in-class user cannot live without. Each of our brands has a long history of continuous product innovation for core and everyday users alike. The Company’s products are principally sold globally under the Black Diamond®, Sierra®, Barnes®, Rhino-Rack® and MAXTRAX® brand names through outdoor specialty and online retailers, our own websites, distributors and original equipment manufacturers.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The more significant estimates relate to the fair value of net assets acquired in business combinations, provision for excess or obsolete inventory, allowance for credit losses, and valuation of contingent consideration liabilities, deferred tax assets, long-lived assets, goodwill and indefinite-lived intangible assets, and other intangible assets. We base our estimates on historical experience, projected future cash flows, and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

NOTE 2. INVENTORIES

Inventories, as of September 30, 2023 and December 31, 2022, were as follows:

	September 30, 2023	December 31, 2022
Finished goods	\$ 102,265	\$ 107,453
Work-in-process	11,049	8,719
Raw materials and supplies	27,146	30,900
	<u>\$ 140,460</u>	<u>\$ 147,072</u>

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

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment, net, as of September 30, 2023 and December 31, 2022, were as follows:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Land	\$ 4,160	\$ 4,160
Building and improvements	18,181	17,357
Furniture and fixtures	8,371	7,384
Computer hardware and software	8,902	8,498
Machinery and equipment	40,410	37,054
Construction in progress	2,640	5,028
	<u>82,664</u>	<u>79,481</u>
Less accumulated depreciation	(41,533)	(36,471)
	<u>\$ 41,131</u>	<u>\$ 43,010</u>

Depreciation expense for the three months ended September 30, 2023 and 2022 was \$1,943 and \$2,091, respectively, and for the nine months ended September 30, 2023 and 2022 was \$5,675 and \$5,800, respectively.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table summarizes the balances in goodwill by segment:

	<u>Outdoor</u>	<u>Precision Sport</u>	<u>Adventure</u>	<u>Total</u>
Goodwill	\$ 29,507	\$ 26,715	\$ 88,349	\$ 144,571
Accumulated goodwill impairment losses	(29,507)	—	(52,071)	(81,578)
Balance at December 31, 2022	<u>—</u>	<u>26,715</u>	<u>36,278</u>	<u>62,993</u>
Impact of foreign currency exchange rates	—	—	(1,098)	(1,098)
Balance at September 30, 2023	<u>\$ —</u>	<u>\$ 26,715</u>	<u>\$ 35,180</u>	<u>\$ 61,895</u>

Indefinite-Lived Intangible Assets

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

Balance at December 31, 2022	\$ 82,901
Impact of foreign currency exchange rates	(1,965)
Balance at September 30, 2023	<u>\$ 80,936</u>

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

Trademarks classified as indefinite-lived intangible assets by brand as of September 30, 2023 and December 31, 2022, were as follows:

	September 30, 2023	December 31, 2022
Black Diamond	\$ 19,600	\$ 19,600
PIEPS	2,951	2,986
Sierra	18,900	18,900
Barnes	5,600	5,600
Rhino-Rack	24,356	25,744
MAXTRAX	9,529	10,071
	<u>\$ 80,936</u>	<u>\$ 82,901</u>

Other Intangible Assets, net

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

Gross balance at December 31, 2022	\$ 100,889
Increase due to purchase of intangible assets	500
Impact of foreign currency exchange rates	(2,976)
Gross balance at September 30, 2023	<u>\$ 98,413</u>

Other intangible assets, net of amortization as of September 30, 2023 and December 31, 2022, were as follows:

	September 30, 2023			Weighted Average Useful Life
	Gross	Accumulated Amortization	Net	
Intangibles subject to amortization				
Customer relationships	\$ 75,219	\$ (40,954)	\$ 34,265	13.8 years
Product technologies	20,984	(11,281)	9,703	10.1 years
Tradename / trademark	1,263	(926)	337	9.4 years
Core technologies	947	(947)	—	10.0 years
	<u>\$ 98,413</u>	<u>\$ (54,108)</u>	<u>\$ 44,305</u>	<u>12.9 years</u>

	December 31, 2022			Weighted Average Useful Life
	Gross	Accumulated Amortization	Net	
Customer relationships	\$ 77,370	\$ (34,653)	\$ 42,717	13.8 years
Product technologies	21,309	(9,207)	12,102	10.2 years
Tradename / trademark	1,263	(827)	436	9.4 years
Core technologies	947	(947)	—	10.0 years
	<u>\$ 100,889</u>	<u>\$ (45,634)</u>	<u>\$ 55,255</u>	<u>13.0 years</u>

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

Amortization expense for the three months ended September 30, 2023 and 2022, was \$3,061 and \$3,683, respectively, and for the nine months ended September 30, 2023 and 2022 was \$9,560 and \$11,740. Future amortization expense for other intangible assets as of September 30, 2023 is as follows:

Years Ending December 31,	Amortization Expense
2023 (excluding the nine months ended September 30, 2023)	\$ 3,053
2024	10,520
2025	8,548
2026	6,536
2027	4,687
2028	3,342
Thereafter	7,619
	\$ 44,305

NOTE 5. ACCRUED LIABILITIES AND OTHER LONG-TERM LIABILITIES

Accrued liabilities as of September 30, 2023 and December 31, 2022, were as follows:

	September 30, 2023	December 31, 2022
Accrued payroll and related items	\$ 4,498	\$ 5,363
Accrued bonus	1,096	1,006
Accrued warranty	1,377	1,465
Current lease liabilities	3,179	2,836
Accrued commissions	1,133	343
Contingent consideration liabilities	—	1,595
Accrued excise tax	616	977
Other	10,536	11,585
	\$ 22,435	\$ 25,170

Other long-term liabilities as of September 30, 2023 and December 31, 2022, were as follows:

	September 30, 2023	December 31, 2022
Long-term lease liability	\$ 13,682	\$ 12,825
Deferred stock consideration for business acquisition	—	2,127
Other	798	902
	\$ 14,480	\$ 15,854

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

NOTE 6. LONG-TERM DEBT

Long-term debt as of September 30, 2023 and December 31, 2022, was as follows:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Revolving credit facility (a)	\$ 10,380	\$ 18,049
Other debt (b)	66	1,134
Term loan (c)	112,500	120,311
Debt issuance costs	(303)	(460)
	<u>122,643</u>	<u>139,034</u>
Less current portion	(12,566)	(11,952)
	<u>\$ 110,077</u>	<u>\$ 127,082</u>

On April 18, 2022 (the “Effective Date”), the Company and certain of its direct and indirect subsidiaries entered into an Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto (the “Restated Credit Agreement”).

The Restated Credit Agreement provides for borrowings of up to \$300,000 under a secured revolving credit facility (the “Revolving Loans”) (including up to \$5,000 for letters of credit), and borrowings of up to \$125,000 under a secured term loan facility (the “Term Loans”). The Restated Credit Agreement also permits the Company, subject to certain requirements, to arrange with lenders for an aggregate of up to \$175,000 of additional revolving and/or term loan commitments (both of which are currently uncommitted), for potential aggregate revolving and term loan commitments under the Restated Credit Agreement of up to \$600,000. The Restated Credit Agreement matures on April 18, 2027 (the “Maturity Date”), at which time the revolving commitments thereunder will terminate and all outstanding Revolving Loans and Term Loans, together with all accrued and unpaid interest thereon, must be repaid.

All obligations under the Restated Credit Agreement are secured by our subsidiary equity interests, as well as accounts receivable, inventory, intellectual property and certain other assets owned by the Company. The Restated Credit Agreement contains restrictions on the Company’s ability to pay dividends or make distributions or other restricted payments if certain conditions in the Restated Credit Agreement are not fulfilled. The Restated 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, 2023.

- (a) As of September 30, 2023, the Company had drawn \$10,380 on the revolving loan, with a maturity date of April 18, 2027. Approximately \$17,000 in additional funds were available to borrow on the revolving loan at September 30, 2023, while maintaining compliance with the consolidated total leverage ratio per the Restated Credit Agreement of 3.75 to 1. The Company pays interest monthly on any borrowings on the Restated Credit Agreement. As of September 30, 2023 and December 31, 2022, the rates were approximately 7.7% and 6.3%, respectively.
- (b) Foreign subsidiaries of the Company had a revolving credit facility, which matured on March 31, 2023, and term debt with financial institutions, which mature between November 16, 2023 and August 8, 2024. The foreign subsidiaries paid interest monthly on any borrowings on the credit facility as well as monthly payments on the term debt. As of September 30, 2023, the interest rates ranged between approximately 3.1% and 3.2% and as of December 31, 2022, the interest rates ranged between approximately 1.3% and 4.0%. The credit facility was secured by certain assets of the foreign subsidiaries. The revolving credit facility was settled and closed as of March 31, 2023 and had no amounts outstanding.

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

- (c) The Company is required to repay the term loan through quarterly payments of \$1,563 each beginning with June 30, 2022, increasing to \$3,125 each beginning with June 30, 2023, and any remaining obligations will be repaid in full on the maturity date of the Restated Credit Agreement of April 18, 2027. The Company pays interest monthly on any borrowings on the Restated Credit Agreement. As of September 30, 2023 and December 31, 2022, the rates were approximately 7.7% and 6.3%, respectively.

NOTE 7. 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, 2023, the Company's derivative contracts had remaining maturities of less than one year. 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. As of September 30, 2023, there was no such exposure to the counterparties. The Company's exposure of counterparty credit risk is limited to the aggregate unrealized gain of \$730 on all contracts as of September 30, 2023. 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, 2023 and December 31, 2022:

	September 30, 2023	
	Notional Amount	Latest Maturity
Foreign exchange contracts - Canadian Dollars	\$5,656	February 2024
Foreign exchange contracts - Euros	€ 15,944	February 2024
	December 31, 2022	
	Notional Amount	Latest Maturity
Foreign exchange contracts - Canadian Dollars	\$2,807	February 2023
Foreign exchange contracts - Euros	€ 20,760	February 2024

For contracts that qualify as effective hedge instruments, the effective portion of gains and losses resulting from changes in fair value of the instruments are included in accumulated other comprehensive loss and reclassified to sales in the period the underlying hedged transaction is recognized in earnings. Gains of \$226 and \$1,218 were reclassified to sales during the three months ended September 30, 2023 and 2022, respectively, and \$167 and \$2,081 were reclassified to sales during the nine months ended September 30, 2023 and 2022, respectively.

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

The following table presents the balance sheet classification and fair value of derivative instruments as of September 30, 2023 and December 31, 2022:

	<u>Classification</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Derivative instruments in asset positions:			
	Prepaid and other current		
Designated forward exchange contracts	assets	\$ 730	\$ 357
Derivative instruments in liability positions:			
Designated forward exchange contracts	Other long-term liabilities	\$ —	\$ 6

NOTE 8. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive 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, 2023:

	<u>Foreign Currency Translation Adjustments</u>	<u>Unrealized Gains (Losses) on Cash Flow Hedges</u>	<u>Total</u>
Balance as of June 30, 2023	\$ (20,038)	\$ (111)	\$ (20,149)
Other comprehensive (loss) income before reclassifications	(3,539)	576	(2,963)
Amounts reclassified from other comprehensive loss	—	(175)	(175)
Net current period other comprehensive (loss) income	(3,539)	401	(3,138)
Balance as of September 30, 2023	\$ (23,577)	\$ 290	\$ (23,287)

The following table sets forth the changes in AOCI, net of tax, for the three months ended September 30, 2022:

	<u>Foreign Currency Translation Adjustments</u>	<u>Unrealized Gains (Losses) on Cash Flow Hedges</u>	<u>Total</u>
Balance as of June 30, 2022	\$ (16,796)	\$ 899	\$ (15,897)
Other comprehensive (loss) income before reclassifications	(11,386)	1,203	(10,183)
Amounts reclassified from other comprehensive income	—	(935)	(935)
Net current period other comprehensive (loss) income	(11,386)	268	(11,118)
Balance as of September 30, 2022	\$ (28,182)	\$ 1,167	\$ (27,015)

CLARUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)
(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, 2023:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of December 31, 2022	\$ (17,628)	\$ (57)	\$ (17,685)
Other comprehensive (loss) income before reclassifications	(5,949)	476	(5,473)
Amounts reclassified from other comprehensive loss	—	(129)	(129)
Net current period other comprehensive (loss) income	(5,949)	347	(5,602)
Balance as of September 30, 2023	\$ (23,577)	\$ 290	\$ (23,287)

The following table sets forth the changes in AOCI, net of tax, for the nine months ended September 30, 2022:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of December 31, 2021	\$ (5,241)	\$ 191	\$ (5,050)
Other comprehensive (loss) income before reclassifications	(22,941)	2,574	(20,367)
Amounts reclassified from other comprehensive loss	—	(1,598)	(1,598)
Net current period other comprehensive (loss) income	(22,941)	976	(21,965)
Balance as of September 30, 2022	\$ (28,182)	\$ 1,167	\$ (27,015)

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

The effects on net income of amounts reclassified from unrealized gains (losses) on cash flow hedges for foreign exchange contracts for the three and nine months ended September 30, 2023 and 2022, were as follows:

Affected line item in the Consolidated Statements of Comprehensive Loss	Gains reclassified from AOCI to the Consolidated Statements of Comprehensive Loss			
	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Foreign exchange contracts:				
Sales	\$ 226	\$ 1,218	\$ 167	\$ 2,081
Less: Income tax expense	51	283	38	483
Amount reclassified, net of tax	\$ 175	\$ 935	\$ 129	\$ 1,598
Total reclassifications from AOCI	<u>\$ 175</u>	<u>\$ 935</u>	<u>\$ 129</u>	<u>\$ 1,598</u>

NOTE 9. 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.

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

Items Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis at September 30, 2023 and December 31, 2022 were as follows:

September 30, 2023				
	Level 1	Level 2	Level 3	Total
Assets				
Designated forward exchange contracts	\$ —	\$ 730	\$ —	\$ 730
	<u>\$ —</u>	<u>\$ 730</u>	<u>\$ —</u>	<u>\$ 730</u>
Liabilities				
Designated forward exchange contracts	\$ —	\$ —	\$ —	\$ —
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
December 31, 2022				
	Level 1	Level 2	Level 3	Total
Assets				
Designated forward exchange contracts	\$ —	\$ 357	\$ —	\$ 357
	<u>\$ —</u>	<u>\$ 357</u>	<u>\$ —</u>	<u>\$ 357</u>
Liabilities				
Designated forward exchange contracts	\$ —	\$ 6	\$ —	\$ 6
Contingent consideration liabilities	\$ —	\$ —	\$ 1,595	\$ 1,595
	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ 1,595</u>	<u>\$ 1,601</u>

Derivative financial instruments are recorded at fair value based on current market pricing models. No nonrecurring fair value measurements existed at September 30, 2023 and December 31, 2022.

The Company estimated the initial fair value of the contingent consideration liabilities primarily using a series of call options. Significant unobservable inputs used in the valuation included discount rates ranging from 4.8% to 8.0%. Contingent consideration liabilities are subsequently remeasured at the estimated fair value at the end of each reporting period using financial projections of the acquired company, such as sales-based milestones and estimated probabilities of achievement, with the change in fair value recognized in contingent consideration benefit in the accompanying consolidated statements of comprehensive (loss) income for such period. We measure the initial liability and remeasure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements.

The following table summarizes the changes in contingent consideration liabilities:

	MAXTRAX
Balance at December 31, 2022	\$ 1,595
Fair value adjustments	(1,565)
Contingent consideration payments	—
Impact of foreign currency exchange rates	(30)
Balance at September 30, 2023	<u>\$ —</u>

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

As the contingent consideration liabilities are remeasured to fair value each reporting period, significant increases or decreases in projected sales, discount rates or the time until payment is made could have resulted in a significantly lower or higher fair value measurement. The net sales threshold required for the final payment of the MAXTRAX Contingent Consideration was not met during the measurement period ended June 30, 2023.

NOTE 10. STOCKHOLDERS' EQUITY

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 November 3, 2023, the Company announced that its Board of Directors approved the payment on November 24, 2023 of the Quarterly Cash Dividend of \$0.025 to the record holders of shares of the Company's common stock as of the close of business on November 14, 2023.

NOTE 11. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing earnings (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per share is computed by dividing earnings (loss) by the total of the weighted average number of shares of common stock outstanding during each period, plus the effect of dilutive outstanding stock options and unvested restricted stock grants. Potentially dilutive securities are excluded from the computation of diluted earnings (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, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Weighted average shares outstanding - basic	37,470	37,369	37,267	37,256
Effect of dilutive stock awards	—	2,061	—	2,246
Effect of dilutive deferred stock consideration for business acquisition	—	150	—	192
Weighted average shares outstanding - diluted	<u>37,470</u>	<u>39,580</u>	<u>37,267</u>	<u>39,694</u>
Net (loss) income per share:				
Basic	\$ (0.03)	\$ 0.07	\$ (0.05)	\$ 0.32
Diluted	(0.03)	0.07	(0.05)	0.30

For the three months ended September 30, 2023 and 2022, equity awards of 4,922 and 1,713, respectively, and for the nine months ended September 30, 2023 and 2022, equity awards of 5,613 and 1,560, respectively, were excluded from the calculation of earnings (loss) per share for these periods as they were anti-dilutive.

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

NOTE 12. 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, 2023, the Company issued stock options for an aggregate of 75 shares under the 2015 Plan to directors of the Company. All 75 options vest and become exercisable over a period of one year. All of the issued stock options expire ten years from the date of the grant.

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

Options Granted During the Nine Months Ended September 30, 2023

Number of options	75
Option vesting period	1 Year
Grant price (per share)	\$7.91
Dividend yield	1.26%
Expected volatility (a)	47.80%
Risk-free interest rate	3.69%
Expected life (years) (b)	5.31
Weighted average fair value (per share)	\$2.48

- (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, 2023 was \$186, which will be recognized over the vesting period of the options.

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

Market Condition Restricted Shares Granted:

On March 14, 2023, the Company awarded the Executive Chairman 500 restricted shares under the 2015 Plan, of which 250 and 250 shares will vest if, on or before March 14, 2033, the Fair Market Value (as defined in the Plan) of the Company's common stock shall have equaled or exceeded \$15.00 and \$18.00 per share for twenty consecutive trading days, respectively. As the vesting terms of the restricted shares include a market condition, the fair value of the restricted stock was estimated as of the date of grant using the Monte-Carlo pricing model with the following assumptions:

	March 14, 2023
Number issued	500
Vesting period	\$15.00 - \$18.00 stock price target
Grant price (per share)	\$9.60
Dividend yield	1.04%
Expected volatility	45.2%
Risk-free interest rate	3.64%
Expected term (years)	2.56 - 3.22
Weighted average fair value (per share)	\$7.84 - \$8.34

Using these assumptions, the grant date fair value of the restricted stock awards was approximately \$4,046 and the expected term was between 2.56 and 3.22 years.

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, 2023 and 2022 was \$1,168 and \$2,220, respectively, and for the nine months ended September 30, 2023 and 2022 was \$4,037 and \$9,142, respectively. For the three and nine months ended September 30, 2023 and 2022, the majority of stock-based compensation costs were classified as selling, general and administrative expenses.

As of September 30, 2023, there were 388 unvested stock options and unrecognized compensation cost of \$1,517 related to unvested stock options, as well as 1,617 unvested restricted stock awards and unrecognized compensation costs of \$8,033 related to unvested restricted stock awards.

NOTE 13. RESTRUCTURING

From time to time, the Company incurs expenses to facilitate long-term sustainable growth through cost reduction actions, consisting of employee reductions, facility rationalization and contract termination costs. These costs include severance costs, exit costs and other restructuring costs and are included in Restructuring charges in the Condensed Consolidated Statements of Comprehensive Loss. Severance costs primarily consist of severance benefits through payroll continuation, conditional separation costs and employer tax liabilities, while exit costs primarily consist of lease exit and contract termination costs. Other costs consisted primarily of costs related to the discontinuance of certain product lines and were distinguishable and directly attributable to the Company's restructuring initiative and not a result of external market factors associated with the ongoing business.

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

Pre-tax restructuring charges by segment for the three months ended September 30, 2023 were as follows:

Three Months Ended September 30, 2023					
	Outdoor	Precision Sport	Adventure	Corporate	Total
Employee termination benefits	\$ 392	\$ 23	\$ 93	\$ -	\$ 508
Exit costs	21	-	-	-	21
Other costs	570	-	-	-	570
Total restructuring charges	<u>\$ 983</u>	<u>\$ 23</u>	<u>\$ 93</u>	<u>\$ -</u>	<u>\$ 1,099</u>

Pre-tax restructuring charges by segment for the nine months ended September 30, 2023 were as follows:

Nine Months Ended September 30, 2023					
	Outdoor	Precision Sport	Adventure	Corporate	Total
Employee termination benefits	\$ 526	\$ 23	\$ 267	\$ 163	\$ 979
Exit costs	86	-	-	-	86
Other costs	770	-	-	-	770
Total restructuring charges	<u>\$ 1,382</u>	<u>\$ 23</u>	<u>\$ 267</u>	<u>\$ 163</u>	<u>\$ 1,835</u>

There were no significant accruals recorded as of September 30, 2023 related to the Company's restructuring initiatives.

NOTE 14. 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. Anticipated costs related to litigation matters are accrued when it is both probable that a liability has been incurred and the amount can be reasonably estimated. 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, except for the U.S. Consumer Product Safety Commission ("CPSC") matter discussed below. 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 material effect. See Part II, Item 1. "Legal Proceedings." and Part II, Item 1A. "Risk Factors."

By letter dated October 12, 2023, Black Diamond Equipment, Ltd. ("BDEL") was notified by the CPSC that the agency staff concluded the Company failed to timely meet its statutory reporting obligations under the Consumer Product Safety Act with respect to certain models of BDEL's avalanche transceivers switching unexpectedly out of "send" mode, that we made a material misrepresentation in a report to the CPSC, and that the agency staff intends to recommend that the CPSC impose substantial civil monetary penalties. We disagree with the agency staff and intend to submit a comprehensive refutation of its findings and conclusions in addition to discussing the amount of a potential penalty; however, the CPSC may ultimately disagree with us, and we cannot assure on what terms this matter will be resolved.

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

Based on currently available information, the Company cannot estimate the amount of the loss (or range of loss) in connection with this matter. We believe it is reasonably possible that a change in our ability to estimate the amount of loss could occur in the near term and that the change in the estimate could be material. In addition, as this matter is ongoing, the Company is currently unable to predict its duration, resources required or outcome, or the impact it may have on the Company's liquidity, financial condition, results of operations and/or cash flows. A penalty imposed by the CPSC or other regulators could be costly to us and could damage our business and reputation as well as have a material adverse effect on the Company's compliance with the covenants contained in the Company's Restated Credit Agreement, liquidity, stock price, consolidated financial position, results of operations and/or cash flows.

NOTE 15. INCOME TAXES

The Company's U.S. federal statutory tax rate of 21% and its foreign operations have statutory tax rates of approximately 24% in Austria, 28% in New Zealand, and 30% in Australia.

The difference between the Company's estimated effective tax rate benefit of 13.9% for the three months ended September 30, 2023, and the U.S. federal statutory tax rate of 21% was primarily due to the impact of stock compensation, research and experimentation expenditures and credits, transaction costs, and discrete stock option shortfalls in the third quarter of 2023.

The difference between the Company's estimated effective tax rate benefit of 23.9% for the nine months ended September 30, 2023, and the U.S. federal statutory tax rate of 21% was primarily due to the impact of stock compensation, research and experimentation expenditures and credits, and discrete stock option shortfalls in the first three quarters of 2023.

As of December 31, 2022, the Company's gross deferred tax asset was \$32,972. The Company has recorded a valuation allowance of \$3,323, resulting in a net deferred tax asset of \$29,649, before deferred tax liabilities of \$30,243. The Company has provided a valuation allowance against a portion of the deferred tax assets as of September 30, 2023 and December 31, 2022, because the ultimate realization of those assets did not meet the more-likely-than-not criteria. The majority of the Company's deferred tax assets consist of net operating loss carryforwards ("NOLs") 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.

As of September 30, 2023, the Company had NOLs and research and experimentation credit for U.S. federal income tax purposes of \$18,908 and \$2,629, respectively. The Company believes its U.S. Federal NOLs will substantially offset its future U.S. Federal income taxes until expiration.

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

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
September 30, 2023

Expiration Dates December 31,	Net Operating Loss Amount
2023	\$ 3,095
2024	3,566
2025	1,708
2026 and beyond	10,539
Total	<u>\$ 18,908</u>

NOTE 16. SEGMENT INFORMATION

We operate our business structure within three segments. These segments are defined based on the internal financial reporting used by our chief operating decision maker to allocate resources and assess performance. 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 Outdoor 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 Outdoor 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 Precision Sport segment, which includes Sierra and Barnes, includes two iconic American manufacturers of a wide range of high-performance bullets and ammunition for both rifles and pistols. These bullets are used for precision target shooting, hunting and military and law enforcement purposes.
- Our Adventure segment, which includes Rhino-Rack and MAXTRAX, is a manufacturer of highly-engineered automotive roof racks, trays, mounting systems, luggage boxes, carriers, recovery boards and accessories in Australia and New Zealand and a growing presence in the United States.

As noted above, the Company has a wide variety of technical outdoor equipment and lifestyle products 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.

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

Financial information for our segments, as well as revenue by geography, which the Company believes provides a meaningful depiction how the nature, timing and uncertainty of revenue are affected by economic factors, is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Sales to external customers:				
Outdoor				
Domestic sales	\$ 26,957	\$ 27,446	\$ 70,391	\$ 80,368
International sales	34,119	35,430	83,527	86,634
Total Outdoor	61,076	62,876	153,918	167,002
Precision Sport				
Domestic sales	13,729	24,612	55,179	79,248
International sales	5,044	9,595	16,491	23,264
Total Precision Sport	18,773	34,207	71,670	102,512
Adventure				
Domestic sales	3,466	3,482	10,154	22,304
International sales	16,760	15,150	45,445	52,106
Total Adventure	20,226	18,632	55,599	74,410
Total sales to external customers	100,075	115,715	281,187	343,924
Segment operating income:				
Outdoor	1,581	5,853	1,847	9,212
Precision Sport	5,450	9,936	17,938	33,951
Adventure	(26)	(3,736)	(1,677)	(968)
Total segment operating income	7,005	12,053	18,108	42,195
Restructuring charges	(1,099)	—	(1,835)	—
Transaction costs	(842)	(858)	(975)	(2,880)
Contingent consideration benefit (expense)	—	(104)	1,565	(493)
Corporate and other expenses	(3,690)	(6,207)	(10,728)	(19,444)
Interest expense, net	(2,842)	(2,216)	(8,445)	(5,060)
(Loss) income before income tax	\$ (1,468)	\$ 2,668	\$ (2,310)	\$ 14,318

There were no intercompany sales between the Outdoor, Precision Sport, and Adventure segments for the periods presented.

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

Total assets by segment, as of September 30, 2023 and December 31, 2022, were as follows:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Outdoor	\$ 173,827	\$ 175,820
Precision Sport	139,443	144,224
Adventure	167,828	181,867
Corporate	16,128	16,234
	<u>\$ 497,226</u>	<u>\$ 518,145</u>

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

	Three Months Ended		Nine Months Ended	
	<u>September 30, 2023</u>	<u>September 30, 2022</u>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Capital expenditures:				
Outdoor	\$ 345	\$ 184	\$ 1,123	\$ 2,509
Precision Sport	408	1,024	1,814	2,246
Adventure	490	936	1,558	1,461
Total capital expenditures	<u>\$ 1,243</u>	<u>\$ 2,144</u>	<u>\$ 4,495</u>	<u>\$ 6,216</u>
Depreciation:				
Outdoor	\$ 720	\$ 794	\$ 2,133	\$ 2,440
Precision Sport	898	818	2,611	2,411
Adventure	325	479	931	949
Total depreciation	<u>\$ 1,943</u>	<u>\$ 2,091</u>	<u>\$ 5,675</u>	<u>\$ 5,800</u>
Amortization:				
Outdoor	\$ 258	\$ 248	\$ 772	\$ 753
Precision Sport	508	692	1,525	2,077
Adventure	2,295	2,743	7,263	8,910
Total amortization	<u>\$ 3,061</u>	<u>\$ 3,683</u>	<u>\$ 9,560</u>	<u>\$ 11,740</u>

NOTE 17. SUBSEQUENT EVENT

TRED Acquisition

On September 13, 2023, Clarus, through Oscar Aluminium Pty Ltd (“Oscar Aluminium”), an indirect wholly-owned Australian subsidiary of the Company, entered into a Share Purchase Agreement (the “TRED Purchase Agreement”) by and among the Oscar Aluminium, Clarus, and Venlo Holdings Pty Ltd (the “Seller”) to acquire Australian-based TRED Outdoors Pty Ltd. (“TRED”). On October 9, 2023, the transaction contemplated by the TRED Purchase Agreement was consummated. All United States dollar amounts contained herein are based on the exchange rates in effect for Australian dollars (\$AUD) and the market value of the Company’s common stock at the time of closing of the acquisition of TRED (the “TRED Acquisition”).

Under the terms of the TRED Purchase Agreement, Oscar Aluminium acquired TRED for an aggregate purchase price of approximately \$AUD 11,765 (approximately \$7,500), subject to a post-closing adjustment. The purchase price consideration was comprised of approximately \$AUD 9,000 (approximately \$5,740) cash, and approximately 179 shares of the Company’s common stock. The TRED Purchase Agreement also provides for the payment of additional contingent consideration of up to approximately \$AUD 1,000 (approximately \$640) cash upon the satisfaction of certain net sales

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

targets. The shares of the Company's common stock issued to the Seller are subject to a lock-up agreement restricting sales for 90 days from the closing of the TRED Acquisition.

Based upon the timing of the TRED Acquisition, the initial accounting is not yet complete as the Company gathers additional information related to the assets acquired and liabilities assumed. The Company is in the process of obtaining third-party valuations of certain intangible assets. The preliminary application of acquisition accounting to the assets acquired and liabilities assumed, as well as the results of operations of TRED, will first be reflected in the Company's consolidated financial results as of the year ended December 31, 2023. The operating results of TRED are expected to be included within the Adventure segment. Acquisition-related costs for the TRED Acquisition, which were included in transaction costs during the three and nine months ended September 30, 2023, were \$360.

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

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

Forward-Looking Statements

Please note that in this Quarterly Report on Form 10-Q 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, including, without limitation, the impact of inflation; 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, 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, including, without limitation, recalls and liability claims relating to our avalanche beacon transceivers; disruptions and other impacts to the Company’s business, as a result of an outbreak of disease or similar public health threat, such as 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, increased focus on sustainability issues as a result of global climate change; regulatory or market responses to global climate change; the Company’s ability to protect patents, trademarks and other intellectual property rights; any breaches of, or interruptions in, our information systems; 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 and products, including without limitation, through social media or in connection with brand damaging events and/or public perception; the potential impact of the Consumer Products Safety Commission’s investigation related to the Company’s reporting obligations under the Consumer Product Safety Act in connection with the Company’s recall of certain models of its avalanche transceivers on our business, results of operations, and financial condition; fluctuations in the price, availability and quality of raw materials and contracted products as well as foreign currency fluctuations; ongoing disruptions and delays in the shipping and transportation of our products due to port congestion, container ship availability and/or other logistical challenges; the impact of political unrest, natural disasters or other crises, terrorist acts, acts of war and/or military operations; our ability to utilize our net operating loss carryforwards; changes in tax laws and liabilities, tariffs, legal, regulatory, political and economic risks; the Company’s ability to maintain a quarterly dividend; any material differences in the actual financial results of the Company’s past and future acquisitions, including the impact of acquisitions and any recognition of impairment or other charges relating to any such acquisitions on the Company’s future earnings per share; the Company’s potential responses to the non-binding indication of interest received from Warren B. Kanders, the Company’s Executive Chairman, to acquire the Company’s Precision Sport segment (the “Precision Sport Proposal”), the exploration of strategic alternatives by the Company in response to the Precision Sport Proposal, and the potential impact of the Precision Sport Proposal on our business, results of operations, and financial condition. 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

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

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 Corporation (which may be referred to as the “Company,” “Clarus,” “we,” “our” or “us”) is a global leading designer, developer, manufacturer and distributor of best-in-class outdoor equipment and lifestyle products focused on the outdoor and consumer enthusiast markets. Our mission is to identify, acquire and grow outdoor “super fan” brands through our unique “innovate and accelerate” strategy. We define a “super fan” brand as a brand that creates the world’s pre-eminent, performance-defining product that the best-in-class user cannot live without. Each of our brands has a long history of continuous product innovation for core and everyday users alike. The Company’s products are principally sold globally under the Black Diamond®, Sierra®, Barnes®, Rhino-Rack® and MAXTRAX® brand names through outdoor specialty and online retailers, our own websites, distributors and original equipment manufacturers. Our portfolio of iconic brands is well-positioned for sustainable, long-term growth underpinned by powerful industry trends across the outdoor and adventure sport end markets.

One of the key elements of our sustained financial performance is our persistent focus on brand building through product initiatives. Our iconic brands are rooted in performance-defining technologies that enable our customers to have their best days outdoors. We have a long history of technical innovation and product development, backed by an extensive patent portfolio that continues to evolve and advance our markets. We currently employ approximately 120 engineers across the portfolio, focusing on enhancing our customers’ performance in the most critical moments. Our commitment to quality, rigorous safety, and ultimately best-in-class design is evidenced by outstanding industry recognition, as we have received numerous product awards across our portfolio of super fan brands.

Each of our brands represents a unique customer value proposition. Supported by six decades of proven innovation, Black Diamond is an established global leader in high-performance, activity-based climbing, skiing, and technical mountain sports equipment. The brand is synonymous with premium performance, safety and reliability. Our Sierra and Barnes brands have been leading specialty manufacturers of bullets and ammunition for over 50 years. Since 1947, Sierra has been dedicated to manufacturing the highest-quality, most accurate bullets in the world for hunting and sport shooting enthusiasts. Barnes traces its history back to 1932, and since 1989 has manufactured technologically-advanced, lead-free bullets and premium ammunition for hunters, range shooters, military and law enforcement professionals. Founded in 1992, our Rhino-Rack brand is a globally-recognized designer and distributor of highly-engineered automotive roof racks and accessories to enhance the outdoor enthusiast’s overlanding experience. Founded in 2005, our MAXTRAX brand offers high-quality overlanding and off-road vehicle recovery and extraction tracks for the overland and off-road market.

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 constituting the Barnes business (“Barnes”). On July 1, 2021, the Company completed the acquisition of Australia-based Rhino-Rack Holdings Pty Ltd (“Rhino-Rack”). On December 1, 2021, the Company completed the acquisition of Australia-based MaxTrax Australia Pty Ltd (“MAXTRAX”).

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

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

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 November 3, 2023, the Company announced that its Board of Directors approved the payment on November 24, 2023 of the Quarterly Cash Dividend of \$0.025 to the record holders of shares of the Company's common stock as of the close of business on November 14, 2023.

Impact of COVID-19

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by each of the U.S., European, and Australian governments in March 2020, with governments worldwide implementing safety measures restricting travel and requiring citizen lockdowns and self-confinements for quarantining purposes. During the years ended December 31, 2020, 2021, and 2022, this had negatively affected the U.S., European, Australian and global economies, disrupted global supply chains, and resulted in significant transport restrictions and disruption of global financial markets.

An outbreak of disease or similar public health threat, such as the COVID-19 pandemic, could have, and in the case of the COVID-19 pandemic has had and may continue to have, a significant impact on the global supply chain, with restrictions and limitations on related activities causing disruption and delay, along with increased raw material, storage, and shipping costs. Any of these disruptions and delays may strain domestic and international supply chains, which could negatively affect the flow or availability of certain critical raw materials and finished good products that the Company relies upon. Furthermore, the foregoing impacts may significantly increase demand from online sales channels, including our website, and could impact our logistical operations, including our fulfillment and shipping functions, which may result in periodic delays in the delivery of our products.

We expect that an outbreak of disease or similar public health threat, such as the COVID-19 pandemic, could have, and in the case of the COVID-19 pandemic may continue to have, 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 Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2022.

Critical Accounting Policies and Use of Estimates

Management's discussion of our financial condition and results of operations is based on the consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of the consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Our critical accounting policies that require the use of estimates and assumptions were discussed in detail in our Annual Report on Form 10-K for the year ended December 31, 2022. 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, 2022.

Accounting Pronouncements Issued Not Yet Adopted

None

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

Results of Operations

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

The following presents a discussion of operations for the three months ended September 30, 2023, compared with the three months ended September 30, 2022.

	Three Months Ended	
	September 30, 2023	September 30, 2022
Sales		
Domestic sales	\$ 44,152	\$ 55,540
International sales	55,923	60,175
Total sales	100,075	115,715
Cost of goods sold	64,527	76,291
Gross profit	35,548	39,424
Operating expenses		
Selling, general and administrative	31,790	32,340
Restructuring charges	1,099	-
Transaction costs	842	858
Contingent consideration expense	-	104
Total operating expenses	33,731	33,302
Operating income	1,817	6,122
Other expense		
Interest expense, net	(2,842)	(2,216)
Other, net	(443)	(1,238)
Total other expense, net	(3,285)	(3,454)
(Loss) income before income tax	(1,468)	2,668
Income tax benefit	(204)	(83)
Net (loss) income	\$ (1,264)	\$ 2,751

Sales

Total sales decreased \$15,640, or 13.5%, to \$100,075 during the three months ended September 30, 2023, compared to total sales of \$115,715 during the three months ended September 30, 2022. The decrease in sales was primarily attributable to a decrease in sales at the Precision Sport and Outdoor segments of \$15,434 and \$1,800, respectively, partially offset by an increase in sales at the Adventure segment of \$1,594.

Sales in the Adventure segment were reduced by \$709 due to foreign exchange impact from the strengthening of the U.S. dollar against the Australian dollar during the three months ended September 30, 2023, compared to the prior period. Sales in the Outdoor segment were increased by \$302 due to foreign exchange impact from the weakening of the U.S. dollar primarily against the euro during the three months ended September 30, 2023, compared to the prior period. Sales in the Outdoor segment decreased due to continued weakness at key North American retail accounts, compounded by weakness

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

in the European and international markets. This weakness was partially offset by growth in the direct-to-consumer channel. Sales in the Precision Sport segment decreased due to challenging market conditions, primarily as a result of significantly lower ammunition sales, as well as decreases in OEM and component product sales. Sales in the Adventure segment increased primarily due to higher OEM sales in the Australian market.

Domestic sales decreased \$11,388, or 20.5%, to \$44,152 during the three months ended September 30, 2023, compared to domestic sales of \$55,540 during the three months ended September 30, 2022. The decrease in sales was primarily attributable to a decrease in sales at the Precision Sport, Outdoor, and Adventure segments of \$10,883, \$489, and \$16, respectively.

International sales decreased \$4,252, or 7.1%, to \$55,923 during the three months ended September 30, 2023, compared to international sales of \$60,175 during the three months ended September 30, 2022. The decrease in sales was primarily attributable to a decrease in sales at the Precision Sport and Outdoor segments of \$4,551 and \$1,311, respectively, partially offset by an increase in sales at the Adventure segment of \$1,610.

Cost of Goods Sold

Cost of goods sold decreased \$11,764, or 15.4%, to \$64,527 during the three months ended September 30, 2023, compared to cost of goods sold of \$76,291 during the three months ended September 30, 2022. The decrease in cost of goods sold was primarily attributable to a decrease in the number of units sold.

Gross Profit

Gross profit decreased \$3,876, or 9.8%, to \$35,548 during the three months ended September 30, 2023, compared to gross profit of \$39,424 during the three months ended September 30, 2022. Gross margin was 35.5% during the three months ended September 30, 2023, compared to a gross margin of 34.1% during the three months ended September 30, 2022. Gross margin during the three months ended September 30, 2023, increased compared to the prior year due to changes in channel and product mix of 0.8% and favorable variances, primarily related to easing freight costs, of 0.9%. These increases were partially offset by unfavorable foreign currency exchange movement of 0.3%.

Selling, General and Administrative

Selling, general, and administrative expenses decreased \$550, or 1.7%, to \$31,790 during the three months ended September 30, 2023, compared to selling, general and administrative expenses of \$32,340 during the three months ended September 30, 2022. The decrease is primarily due to a decrease in stock compensation of \$1,052, lower intangible amortization expense, and lower sales commissions during the three months ended September 30, 2023, compared to the prior year. The decrease was partially offset by investment in e-com initiatives in the Outdoor segment and higher legal costs.

Restructuring Charges

Restructuring charges increased to \$1,099 during the three months ended September 30, 2023, compared to restructuring charges of \$0 during the three months ended September 30, 2022, which consisted of severance costs, exit costs, and other costs related to the Company's restructuring initiatives.

Transaction Costs

Transaction costs decreased to \$842 during the three months ended September 30, 2023, compared to transaction costs of \$858 during the three months ended September 30, 2022. The 2023 transaction costs related to the TRED Outdoor acquisition and costs related to the ongoing process undertaken by the Special Committee of the Board of Directors in connection with its evaluation of the potential sale of the Precision Sport segment.

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

Contingent Consideration Expense

Contingent consideration expense decreased to \$0 during the three months ended September 30, 2023, compared to a contingent consideration expense of \$104 during the three months ended September 30, 2022, which consisted of changes in the estimated fair value of contingent consideration liabilities associated with our acquisition of MAXTRAX in 2021.

Interest Expense, net

Interest expense, net increased to \$2,842 during the three months ended September 30, 2023, compared to interest expense, net of \$2,216 during the three months ended September 30, 2022. The increase in interest expense recognized during the three months ended September 30, 2023 was primarily associated with the increase in interest rates during the period compared to the prior year.

Other, net

Other, net, changed by \$795, or 64.2%, to (\$443) during the three months ended September 30, 2023, compared to other, net of (\$1,238) during the three months ended September 30, 2022. The change in other, net, was primarily attributable to a decrease in remeasurement losses recognized on the Company's foreign denominated accounts receivable and accounts payable and changes in mark-to-market adjustments on non-hedged foreign currency contracts during the three months ended September 30, 2023.

Income Taxes

Income tax benefit changed by \$121, or 145.8%, to \$204 during the three months ended September 30, 2023, compared to a benefit of \$83 during the same period in 2022. Our effective income tax rate was a benefit of 13.9% for the three months ended September 30, 2023, and differed compared to the statutory tax rates primarily due to the impact of stock compensation, research and experimentation expenditures and credits, transaction costs, and discrete stock option shortfalls. For the three months ended September 30, 2022, our effective income tax rate was a benefit of 3.1% and differed compared to the statutory tax rates due to the impact of discrete stock option windfall benefits.

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

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

The following presents a discussion of operations for the nine months ended September 30, 2023, compared with the nine months ended September 30, 2022.

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Sales		
Domestic sales	\$ 135,724	\$ 181,920
International sales	145,463	162,004
Total sales	281,187	343,924
Cost of goods sold	178,864	216,566
Gross profit	102,323	127,358
Operating expenses		
Selling, general and administrative	94,809	101,959
Restructuring charges	1,835	-
Transaction costs	975	2,880
Contingent consideration (benefit) expense	(1,565)	493
Total operating expenses	96,054	105,332
Operating income	6,269	22,026
Other expense		
Interest expense, net	(8,445)	(5,060)
Other, net	(134)	(2,648)
Total other expense, net	(8,579)	(7,708)
(Loss) income before income tax	(2,310)	14,318
Income tax (benefit) expense	(553)	2,494
Net (loss) income	<u>\$ (1,757)</u>	<u>\$ 11,824</u>

Sales

Total sales decreased \$62,737, or 18.2%, to \$281,187 during the nine months ended September 30, 2023, compared to total sales of \$343,924 during the nine months ended September 30, 2022. The decrease in sales was primarily attributable to a decrease in sales at the Precision Sport, Adventure, and Outdoor segments of \$30,842, \$18,811, and \$13,084, respectively.

Sales in the Adventure and Outdoor segments were reduced by \$2,593 and \$1,630, respectively, due to foreign exchange impact from the strengthening of the U.S. dollar against foreign currencies during the nine months ended September 30, 2023, compared to the prior period. Sales in the Outdoor segment decreased due to continued weakness at key North American retail accounts, compounded by weakness in the European market. This weakness was partially offset by growth in the direct-to-consumer channel. Sales in the Precision Sport segment decreased due to challenging market conditions, primarily as a result of significantly lower ammunition sales, as well as decreases in OEM and component product sales.

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

Sales in the Adventure segment decreased due to lower demand from our wholesale partners in both Australia and the United States.

Domestic sales decreased \$46,196, or 25.4%, to \$135,724 during the nine months ended September 30, 2023, compared to domestic sales of \$181,920 during the nine months ended September 30, 2022. The decrease in sales was primarily attributable to a decrease in sales at the Precision Sport, Adventure, and Outdoor segments of \$24,069, \$12,150, and \$9,977, respectively.

International sales decreased \$16,541, or 10.2%, to \$145,463 during the nine months ended September 30, 2023, compared to international sales of \$162,004 during the nine months ended September 30, 2022. The decrease in sales was primarily attributable to a decrease in sales at the Precision Sport, Adventure, and Outdoor segments of \$6,773, \$6,661, and \$3,107, respectively.

Cost of Goods Sold

Cost of goods sold decreased \$37,702, or 17.4%, to \$178,864 during the nine months ended September 30, 2023, compared to cost of goods sold of \$216,566 during the nine months ended September 30, 2022. The decrease in cost of goods sold was primarily attributable to a decrease in the number of units sold.

Gross Profit

Gross profit decreased \$25,035, or 19.7%, to \$102,323 during the nine months ended September 30, 2023, compared to gross profit of \$127,358 during the nine months ended September 30, 2022. Gross margin was 36.4% during the nine months ended September 30, 2023, compared to a gross margin of 37.0% during the nine months ended September 30, 2022. Gross margin during the nine months ended September 30, 2023, decreased compared to the prior year due to changes in channel and product mix of 1.1% and unfavorable foreign currency exchange movement of 0.9%. Channel and product mix were primarily impacted by discounting of ammunition in the Precision Sport segment, as well as promotional pricing in the Outdoor segment, which negatively impacted gross margin. These decreases were partially offset by favorable variances, primarily related to easing freight costs, of 1.4%.

Selling, General and Administrative

Selling, general, and administrative expenses decreased \$7,150, or 7.0%, to \$94,809 during the nine months ended September 30, 2023, compared to selling, general and administrative expenses of \$101,959 during the nine months ended September 30, 2022. The decrease is primarily due to a decrease in stock compensation of \$5,106 during the nine months ended September 30, 2023, compared to the prior year. The decrease was also driven by expense reduction initiatives to offset challenging market conditions, lower intangible amortization expense, and lower sales commissions due to decreased revenue. The decrease was partially offset by higher investment in e-com initiatives in the Outdoor segment and higher legal costs.

Restructuring Charges

Restructuring charges increased to \$1,835 during the nine months ended September 30, 2023, compared to restructuring charges of \$0 during the nine months ended September 30, 2022, which consisted of severance costs, exit costs, and other costs related to the Company's restructuring initiatives.

Transaction Costs

Transaction costs decreased to \$975 during the nine months ended September 30, 2023, compared to transaction costs of \$2,880 during the nine months ended September 30, 2022. The 2023 transaction costs related to the TRED Outdoor

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

acquisition and costs related to the ongoing process undertaken by the Special Committee of the Board of Directors in connection with its evaluation of the potential sale of the Precision Sport segment.

Contingent Consideration (Benefit) Expense

Contingent consideration changed to a benefit of \$1,565 during the nine months ended September 30, 2023, compared to \$493 contingent consideration expense during the nine months ended September 30, 2022, which consisted of changes in the estimated fair value of contingent consideration liabilities associated with our acquisition of MAXTRAX in 2021.

Interest Expense, net

Interest expense, net increased to \$8,445 during the nine months ended September 30, 2023, compared to interest expense, net of \$5,060 during the nine months ended September 30, 2022. The increase in interest expense recognized during the nine months ended September 30, 2023 was primarily associated with the increase in interest rates during the period compared to the prior year.

Other, net

Other, net, changed by \$2,514, or 94.9%, to (\$134) during the nine months ended September 30, 2023, compared to other, net of (\$2,648) during the nine months ended September 30, 2022. The change in other, net, was primarily attributable to a decrease in remeasurement losses recognized on the Company's foreign denominated accounts receivable and accounts payable and changes in mark-to-market adjustments on non-hedged foreign currency contracts during the nine months ended September 30, 2023.

Income Taxes

Income tax (benefit) expense changed by \$3,047, or 122.2%, to a benefit of \$553 during the nine months ended September 30, 2023, compared to income tax expense of \$2,494 during the same period in 2022. Our effective income tax rate was a benefit of 23.9% for the nine months ended September 30, 2023, and differed compared to the statutory tax rates primarily due to the impact of stock compensation, research and experimentation expenditures and credits, and discrete stock option shortfalls. For the nine months ended September 30, 2022, our effective income tax rate was 17.4% and differed compared to the statutory tax rates due to the impact of discrete stock option windfall benefits in the third quarter, partially offset by the impact of foreign earnings taxed at applicable statutory rates and permanent book to tax differences related to incentive stock options and officer compensation limitations.

Liquidity and Capital Resources

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

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 various brands. We plan to fund these activities through a combination of our future operating cash flows and borrowings on our revolving credit facility which had approximately \$17,000 available to borrow at September 30, 2023, while currently maintaining compliance with the consolidated total leverage ratio per the Restated Credit Agreement of 3.75 to 1. We believe that our liquidity requirements and contractual obligations for at least the next 12 months will be adequately covered by cash provided by operations and our existing revolving credit facility. Additionally, long-term contractual obligations are also currently expected to be funded from cash from operations and availability under our existing credit facilities. For additional information regarding the Company's existing credit facilities, see the section titled "Credit Agreement" below.

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

At September 30, 2023, we had total cash of \$8,024, compared to a cash balance of \$12,061 at December 31, 2022. At September 30, 2023, the Company had \$5,062 of the \$8,024 in cash held by foreign entities, of which \$3,325 is considered permanently reinvested.

The following presents a discussion of cash flows for the condensed consolidated nine months ended September 30, 2023 compared with the condensed consolidated nine months ended September 30, 2022.

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Net cash provided by (used in) operating activities	\$ 17,428	\$ (17,746)
Net cash used in investing activities	(4,549)	(5,778)
Net cash (used in) provided by financing activities	(16,191)	15,327
Effect of foreign exchange rates on cash	(725)	(903)
Change in cash	(4,037)	(9,100)
Cash, beginning of year	12,061	19,465
Cash, end of period	<u>\$ 8,024</u>	<u>\$ 10,365</u>

Net Cash From Operating Activities

Net cash provided by operating activities was \$17,428 during the nine months ended September 30, 2023, compared to net cash used in operating activities of \$17,746 during the nine months ended September 30, 2022. The change in net cash provided by (used in) operating activities during 2023 is primarily due to a decrease in cash outflows related to working capital of \$60,318, partially offset by a decrease in stock compensation and amortization of other intangible assets, and an increase in contingent consideration benefit during the nine months ended September 30, 2023, compared to the same period in 2022.

Free cash flow, defined as net cash provided by (used in) operating activities less capital expenditures, of \$12,933 was generated during the nine months ended September 30, 2023 compared to (\$23,962) used during the same period in 2022. 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 the nearest comparable GAAP financial measure is set forth below:

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Net cash provided by (used in) operating activities	\$ 17,428	\$ (17,746)
Purchase of property and equipment	(4,495)	(6,216)
Free cash flow	<u>\$ 12,933</u>	<u>\$ (23,962)</u>

Net Cash From Investing Activities

Net cash used in investing activities was \$4,549 during the nine months ended September 30, 2023, compared to \$5,778 during the nine months ended September 30, 2022. The decrease in cash used during the nine months ended September 30, 2023 is primarily due to a decrease in purchases of property and equipment, compared to the same period in 2022.

Net Cash From Financing Activities

Net cash used in financing activities was \$16,191 during the nine months ended September 30, 2023, compared to net cash provided by financing activities of \$15,327 during the nine months ended September 30, 2022. The change in net cash

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

(used in) provided by financing activities during the nine months ended September 30, 2023, compared to the same period in 2022 was primarily due to a decrease in net proceeds from the revolving line of credit and term loan, partially offset by a decrease in purchases of treasury stock.

Net Operating Loss

As of September 30, 2023, the Company had net operating loss carryforwards (“NOLs”) and research and experimentation credit for U.S. federal income tax purposes of \$18,908 and \$2,629, respectively. The Company believes its U.S. Federal NOLs will substantially offset its future U.S. Federal income taxes until expiration. 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 NOLs. The Company has \$18,908 of NOLs, of which, \$3,095 expire on December 31, 2023. These NOLs are subject to compliance with Section 382 of the Internal Revenue Code of 1986, as amended.

As of December 31, 2022, the Company’s gross deferred tax asset was \$32,972. The Company has recorded a valuation allowance of \$3,323, resulting in a net deferred tax asset of \$29,649, before deferred tax liabilities of \$30,243. The Company has provided a valuation allowance against a portion of the net deferred tax assets as of December 31, 2022, 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

As of September 30, 2023, the Company had drawn \$10,380 on the revolving loan and \$112,500 was outstanding under the term loan. Approximately \$17,000 in additional funds were available to borrow on the revolving loan at September 30, 2023, while maintaining compliance with the consolidated total leverage ratio per the Restated Credit Agreement (as defined below) of 3.75 to 1. As of September 30, 2023, the interest rates on the revolving loan and term loan commitments were approximately 7.7%. The Company was in compliance with the debt covenants set forth in the Restated Credit Agreement as of September 30, 2023.

On April 18, 2022 (the “Effective Date”), the Company, Black Diamond Retail, Inc., Black Diamond Retail – Alaska, LLC, Sierra Bullets, L.L.C., SKINourishment, LLC, Black Diamond Retail – Colorado, LLC, Black Diamond Retail – Montana, LLC, Black Diamond Retail – Wyoming, LLC, Barnes Bullets-Mona, LLC, Black Diamond Retail – Oregon, LLC, Black Diamond Retail – Vermont, LLC (collectively with the Company, the “Borrowers”) and the other loan parties party thereto (together with the Borrowers, each a “Loan Party”, and collectively, the “Loan Parties”) entered into an Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent (the “Administrative Agent”) and the lenders party thereto (the “Restated Credit Agreement”) pursuant to which the existing Credit Agreement, dated as of May 3, 2019 (as amended prior to the Effective Date, the “Existing Credit Agreement”) by and among the Company, the lenders and loan parties from time to time party thereto and the Administrative Agent was amended and restated in its entirety. Each of the Loan Parties, other than the Company, is a direct or indirect subsidiary of the Company. Effective as of June 30, 2023, Maxtrax Australia Trading Pty Ltd., and effective as July 7, 2023, each of MAXTRAX USA, LLC, Clarus Real Estate LLC, and Black Diamond Retail – Colorado, LLC, were joined to the Restated Credit Agreement as Loan Parties thereto.

The Restated Credit Agreement provides for borrowings of up to \$300,000 under a secured revolving credit facility (the “Revolving Loans”) (including up to \$5,000 for letters of credit), and borrowings of up to \$125,000 under a secured term loan facility (the “Term Loans”). The Restated Credit Agreement also permits the Borrowers, subject to certain requirements, to arrange with lenders for an aggregate of up to \$175,000 of additional revolving and/or term loan commitments (both of which are currently uncommitted), for potential aggregate revolving and term loan commitments under the Restated Credit Agreement of up to \$600,000. The proceeds of loans made under the Restated Credit Agreement may be used for working capital and general corporate purposes, including acquisitions permitted under the Restated Credit Agreement. The Restated Credit Agreement matures on April 18, 2027 (the “Maturity Date”), at which time the revolving

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

commitments thereunder will terminate and all outstanding Revolving Loans and Term Loans, together with all accrued and unpaid interest thereon, must be repaid.

The Term Loans were fully drawn on the Effective Date and cannot be reborrowed. The Restated Credit Agreement provides for quarterly amortization payments of the Term Loans on the last business day of each March, June, September and December, commencing on June 30, 2022. Through and including the payment due on June 30, 2023, the scheduled amortization payment is \$1,563 per quarter, and each scheduled amortization payment due thereafter through the Maturity Date is \$3,125 per quarter.

The Borrowers may elect to have the Revolving Loans and Term Loans under the Restated Credit Agreement bear interest at an applicable rate plus either:

- (i) in the case of alternate base rate borrowings, a rate per annum generally equal to the greatest of:
 - (a) the prime rate in effect on such day;
 - (b) 0.50% plus the greater of the Federal Reserve Bank of New York's effective federal funds rate or the Federal Reserve Bank of New York's overnight bank funding rate in effect on such day; and
 - (c) 1.00% plus the adjusted term SOFR rate for a 1-month interest period;

provided that, in certain circumstances where the alternate base rate is being used as an alternate rate of interest, the alternate base rate shall be determined only according to (a) and (b), and shall be subject to a 1.00% floor; or

- (ii) in the case of term benchmark borrowings, a rate per annum as follows:
 - (a) for borrowings denominated in U.S. Dollars, the term SOFR rate (based on one, three or six-month interest periods) plus 0.10%, subject to a 0.00% floor; or
 - (b) for borrowings denominated in a Foreign Currency, the applicable rate for such Foreign Currency set forth in the Restated Credit Agreement.

The applicable rate for these borrowings will range from 0.50% to 1.625% per annum, in the case of alternate base rate borrowings, and 1.50% to 2.625% per annum, in the case of term benchmark 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 term benchmark borrowings, however, these initial applicable rates may be adjusted from time to time based upon the level of the Company's consolidated total leverage ratio, which is more fully discussed in the Restated Credit Agreement. If one or more of the above interest rates are not determinable, or under certain other circumstances set forth in the Restated Credit Agreement, a substitute or alternative interest rate may apply under the Restated Credit Agreement.

The Restated Credit Agreement also requires the Borrowers to pay a commitment fee on the unused portion of the revolving loan commitments. Such commitment fee will range between 0.15% and 0.30% per annum, and is also based upon the level of the Company's consolidated total leverage ratio, which is more fully discussed in the Restated Credit Agreement. The Company is also obligated to pay other customary closing fees, arrangement fees, administration fees and letter of credit fees for a credit facility of this size and type.

The Restated Credit Agreement contains customary affirmative and negative covenants, including limitations on the ability of the Company and its subsidiaries to perform the following, subject to certain customary exceptions, qualifications and "baskets": (i) incur additional debt; (ii) create liens; (iii) engage in mergers, consolidations, certain divisions, liquidations or dissolutions other than in certain permitted instances as described in the Restated Credit Agreement; (iv) substantially

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

change the business conducted by the Company and its subsidiaries; (v) make certain investments, loans, advances, guarantees and acquisitions other than in certain permitted instances as described in the Restated Credit Agreement; (vi) sell assets; (vii) pay dividends or make distributions or other restricted payments if certain conditions in the Restated Credit Agreement are not fulfilled; (viii) prepay other indebtedness; (ix) engage in certain transactions with affiliates; (x) enter into agreements that restrict dividends from subsidiaries or the ability of subsidiaries to grant liens upon their assets; (xi) amend certain charter documents and material agreements governing subordinated indebtedness; (xii) permit the consolidated total leverage ratio, which is to be determined for each quarter end on a trailing twelve month basis, from exceeding a limit of 3.75 to 1, provided, that, subject to certain terms and conditions set forth in the Restated Credit Agreement, so long as no Event of Default (as defined in the Restated Credit Agreement) exists at such time or would result therefrom, the Company may elect to increase the maximum consolidated total leverage ratio permitted under the Restated Credit Agreement to 4.25:1.00 for a period of four consecutive fiscal quarters in connection with any acquisition permitted under the Restated Credit Agreement for which the aggregate consideration is greater than or equal to \$60,000; and (xiii) permit the consolidated fixed charge coverage ratio, which is to be determined for each quarter end on a trailing twelve month basis, to be less than 1.25 to 1.

The Restated Credit Agreement also contains customary events of default, including, but not limited to: (i) failure to pay amounts due under the Restated Credit Agreement; (ii) materially incorrect representations and warranties; (iii) failure to comply with covenants; (iv) change of control; and (v) default under other indebtedness aggregating at least \$3,000.

The obligations of each Loan Party under the Restated Credit Agreement are guaranteed by each other Loan Party. All obligations under the Restated Credit Agreement, and the guarantees of those obligations (as well as banking services obligations and certain swap agreements), are secured by pledges and liens on 100% of the equity interests of domestic subsidiaries, either 100% or 65% of the equity interests of certain foreign subsidiaries, and the accounts receivable, inventory, intellectual property and certain real property or other assets of the Loan Parties pursuant to (i) a Pledge and Security Agreement, dated as of May 3, 2019, by and among certain of the Loan Parties and the Administrative Agent (as amended from time to time prior to the Effective Date, the “PSA”), (ii) a General Security Deed, dated as of August 30, 2021, by and among certain of the Loan Parties and the Administrative Agent (the “Oscar GSD”), (iii) a General Security Deed, dated as of January 31, 2022, by and among certain of the Loan Parties and the Administrative Agent (the “Simpson GSD”) or (iv) a mortgage or other applicable security agreement or instrument. Each of the PSA, the Oscar GSD and the Simpson GSD was reaffirmed by the Loan Parties on the Effective Date pursuant to a Reaffirmation Agreement dated as of the Effective Date by and among the Administrative Agent and the Loan Parties (the “Reaffirmation Agreement”) pursuant to which each Loan Party ratified and reaffirmed its obligations to the Lenders in connection with entering into the Restated Credit Agreement.

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, 2022.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Executive Chairman and Chief 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, 2023, 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 Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2023, 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, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CLARUS CORPORATION

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal Proceedings

The Company is involved in various legal disputes and other legal proceedings that arise from time to time in the ordinary course of business. Based on currently available information, and except as disclosed herein, the Company does not believe that the existence 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. See also Part II, Item 1A. "Risk Factors."

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 and other expenses or costs for defending such actions, which legal fees and expenses or costs 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, and except as disclosed herein, 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.

Except as disclosed herein, 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 business, brand reputation, liquidity, stock price, consolidated financial position, results of operations and/or cash flows. See also Part II, Item 1A. "Risk Factors."

U.S. Consumer Product Safety Commission

In January 2021, Black Diamond Equipment, Ltd. ("BDEL") wrote to the U.S. Consumer Product Safety Commission ("CPSC") outlining its new cradle solution for certain models of its avalanche beacon transceivers to prevent such transceivers from switching unexpectedly out of "send" mode. The proposed new cradle solution was designed to improve transceiver safety by locking the transceiver into "send" mode prior to use so that it would not switch unexpectedly out of "send" mode. BDEL also requested approval for the CPSC Fast-Track Program for a voluntary product recall to implement this cradle solution. The CPSC approved the recall and entered into a Corrective Action Plan agreement with BDEL in March 2021. BDEL received a letter from the CPSC, dated October 28, 2021, stating that the CPSC is investigating

CLARUS CORPORATION

whether BDEL has timely complied with the reporting requirements of Section 15(b) of the Consumer Protection Safety Act and related regulations regarding certain models of avalanche transceivers switching unexpectedly out of “send” mode.

By letter dated October 12, 2023, BDEL was notified by the CPSC that the agency staff has concluded we failed to timely meet our statutory reporting obligations under the Consumer Product Safety Act with respect to certain models of BDEL’s avalanche transceivers switching unexpectedly out of “send” mode, that we made a material misrepresentation in a report to the CPSC, and that the agency staff intends to recommend that the CPSC impose substantial civil monetary penalties. We disagree with the agency staff and intend to submit a comprehensive refutation of its findings and conclusions in addition to discussing the amount of a potential penalty; however, the CPSC may ultimately disagree with us, and we cannot assure on what terms this matter will be resolved. A penalty imposed by the CPSC or other regulators, could be costly to us and could damage our business and reputation as well as have a material adverse effect on the Company’s compliance with the covenants contained in the Company’s Restated Credit Agreement, liquidity, stock price, consolidated financial position, results of operations and/or cash flows.

Separately, on April 21, 2022, BDEL filed a Section 15(b) report and applied for Fast-Track consideration for a voluntary recall, consisting of free repair or replacement of such malfunctioning models of avalanche transceivers, which would switch unexpectedly out of “search” mode due to an electronic malfunction in the reed switch or foil. The CPSC approved the recall and entered into a Corrective Action Plan agreement with BDEL in August 2022. BDEL received a letter from the CPSC, dated January 17, 2023, stating that the CPSC is investigating whether BDEL has timely complied with the reporting requirements of Section 15(b) of the Consumer Protection Safety Act and related regulations regarding the malfunction in the reed switch or foil in certain models of avalanche transceivers switching out of “search” mode. BDEL responded to the CPSC’s investigation by letter dated March 31, 2023, accompanied with documents responsive to the CPSC’s requests. The CPSC has since asked for further clarification and documents, and BDEL sent a responsive letter accompanied by additional documents on June 23, 2023. On September 6, 2023, the CPSC requested further clarification and information regarding the reed switch issue, to which BDEL responded on October 6 and 13, 2023.

ITEM 1A. RISK FACTORS

Below we are providing, in supplemental form, changes to our risk factors from those previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022. Our risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 provide additional discussion regarding these supplemental risks and we encourage you to read and carefully consider all of the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, together with the below, for a more complete understanding of the risks and uncertainties material to our business, results of operations and/or financial condition.

Many of the products we sell are used for inherently risky outdoor pursuits and could give rise to product liability or product warranty claims and other loss contingencies, which could affect our earnings and financial condition.

Many of our products are used in applications and situations that involve high levels of risk of personal injury and death. As a result, we maintain a staff who focus on including appropriate disclaimers and markings, and undertaking testing and otherwise seeking to assure the quality and safety of our products. We stay current with laws to seek to provide thorough and protective disclaimers and instructions on all of our products and packaging. Furthermore, our technical climbing and avalanche safety equipment and our related operations meet and are certified to International Personal Protective Equipment (PP) standards set by the EEC or ISO 9001 quality system standards. Failure to use our products for their intended purposes, failure to use or care for them properly, or their malfunction, or, in some limited circumstances, even correct use of our products, could result in serious bodily injury or death.

We remain exposed to product liability claims by the nature of the products we produce. Exposure occurs if one of our products is alleged to have resulted in property damage, bodily injury or other adverse effects. Any such product liability claims may include allegations of defects in manufacturing and/or design, failure to warn of dangers inherent in the product or activities associated with the product, negligence, strict liability, and/or breach of warranties. Although we maintain product liability insurance in amounts that we believe are reasonable, there can be no assurance that we will be able to

CLARUS CORPORATION

maintain such insurance on acceptable terms, if at all, in the future or that product liability claims will not exceed the amount of insurance coverage.

As a manufacturer and distributor of consumer products, we are subject to government regulation in the United States and other countries, including, without limitation, the Consumer Products Safety Act, which empowers the CPSC to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the CPSC could require us to repurchase or recall one or more of our products. Additionally, laws regulating certain consumer products exist in some cities and states, as well as in other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future. Any such recalls or repurchases of our products could be costly to us and could damage our business and reputation as well as have a material adverse effect on the Company's liquidity, stock price, consolidated financial position, results of operations and/or cash flows. If we are required to remove, or if we voluntarily remove, our products from the market, our reputation could be tarnished and we might have large quantities of finished products that we are unable to sell.

We spend substantial resources ensuring compliance with governmental and other applicable standards. However, compliance with these standards does not necessarily prevent individual or class action lawsuits, which can entail significant cost and risk. We do not maintain insurance against many types of claims involving alleged defects in our products that do not involve personal injury or property damage. As a result, these types of claims could have a material adverse effect on our business, results of operations, and financial condition.

Our product liability insurance program is an occurrence-based program based on our current and historical claims experience and the availability and cost of insurance. We carry both general and umbrella liability policies that insure us for product liability claims. The policy has a small retention, which enables us to manage and control our product liability claims. Historically, product liability awards have not exceeded our individual per occurrence self-insured retention. We cannot assure you, however, that our future product liability experience will be consistent with our past experience. Additionally, we do not maintain product recall insurance. We maintain a warranty reserve for estimated future warranty claims, but the actual costs of servicing future warranty claims may exceed the reserve. As a result, product recalls or product liability claims, including, without limitation, recalls and liability claims relating to our avalanche beacon transceivers, could be costly to us and could damage our business and reputation as well as have a material adverse effect on the Company's liquidity, stock price, consolidated financial position, results of operations and/or cash flows.

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

Our brands have wide recognition, and our success has been due in large part to our ability to maintain, enhance and protect our brand image and reputation and our consumers' and customers' connection to our brands. Our continued success depends in part on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and online dissemination of advertising campaigns. In addition, consumer and customer sentiment could be shaped by our sustainability policies and related design, sourcing and operational decisions.

Negative claims or publicity involving us, our board of directors, our brands, our products, including, without limitation, recalls and liability claims relating to our avalanche beacon transceivers, 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.

Furthermore, 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 and products, including, without limitation, recalls and liability claims relating to our avalanche beacon transceivers, is tarnished or if we receive negative publicity, then our sales, financial condition and results of operations could be materially and adversely affected.

CLARUS CORPORATION

From time to time, we have been and may be subject to legal proceedings, regulatory investigations or disputes, and governmental inquiries that could cause us to incur significant expenses, divert our management's attention, damage our business and reputation as well as have a material adverse effect on the Company's liquidity, stock price, consolidated financial position, results of operations and/or cash flows.

From time to time, we have been and may be subject to claims, lawsuits, government investigations, and other proceedings involving products liability, competition and antitrust, intellectual property, privacy, consumer protection, securities, tax, labor and employment, commercial disputes, and other matters that could adversely affect our business operations and financial condition. Injuries sustained by those who use or purchase our products, including, without limitation, our avalanche beacon transceivers, have, and could in the future, subject us to regulatory proceedings and litigation by government agencies and private litigants brought against us, that regardless of their merits, could harm our reputation, divert management's attention from our operations and result in substantial legal fees and other costs. For example, as disclosed in Part II, Item 1 "Legal Proceedings," BDEL was notified by the CPSC that the agency staff believes we failed to timely meet our statutory reporting obligations under the Consumer Product Safety Act with respect to certain models of BDEL's avalanche transceivers switching unexpectedly out of "send" mode, that we made a material misrepresentation in a report to the CPSC, and that the agency staff intends to recommend that the CPSC impose substantial civil monetary penalties. A significant penalty imposed by the CPSC or other regulators, could be costly to us and could damage our business and reputation as well as have a material adverse effect on the Company's compliance with the covenants contained in the Company's Restated Credit Agreement, liquidity, stock price, consolidated financial position, results of operations and/or cash flows. Also, we have reporting obligations to safety regulators in all jurisdictions where we sell our products, where reporting may trigger further regulatory investigations.

CLARUS CORPORATION

ITEM 6. EXHIBITS

Exhibit	Description
10.1	Separation Agreement and General Release, dated as of August 31, 2023, between Clarus Corporation and Aaron J. Kuehne (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 1, 2023, 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 *
104	Cover Page Interactive Data File – formatted as Inline XBRL and contained in Exhibit 101
*	Filed herewith
**	Furnished herewith

CLARUS CORPORATION
SIGNATURES

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

Date: November 7, 2023	CLARUS CORPORATION
	By: <u>/s/ Warren B. Kanders</u>
	Name: Warren B. Kanders
Date: November 7, 2023	Title: Executive Chairman
	(Principal Executive Officer)
Date: November 7, 2023	By: <u>/s/ Michael J. Yates</u>
	Name: Michael J. Yates
	Title: Chief Financial Officer
	(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Warren B. Kanders, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Clarus Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

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

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Michael J. Yates, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Clarus Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

By: /s/ Michael J. Yates
Name: Michael J. Yates
Title: Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

**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, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Warren B. Kanders, Executive Chairman, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: November 7, 2023

By: /s/ Warren B. Kanders

Name: Warren B. Kanders

Title: Executive Chairman

(Principal Executive Officer)

**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, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Yates, Chief Financial Officer, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 7, 2023

By: /s/ Michael J. Yates
Name: Michael J. Yates
Title: Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)
