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**

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

For the quarterly period ended July 31, 2023

Commission File No. 001-39366

American Outdoor Brands, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**84-4630928**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1800 North Route Z, Suite A Columbia, Missouri	**65202**
(Address of principal executive offices)	**(Zip Code)**

(800) 338-9585
(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 exchange on which registered
Common Stock, par value $0.001 per share	AOUT	Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The registrant had 13,007,379 shares of common stock, par value $0.001, outstanding as of August 31, 2023.

AMERICAN OUTDOOR BRANDS, INC.

Quarterly Report on Form 10-Q
For the Three Months Ended July 31, 2023 and 2022

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Accumax®, BOG®, BUBBA®, Caldwell®, Deadshot®, Deathgrip®, Delta Series®, E-MAX®, F.A.T. Wrench®, Fieldpod®, Frankford Arsenal®, Golden Rod®, Hooyman®, Imperial®, Intellidropper®, Lead Sled®, Lockdown®, Mag Charger®, Old Timer®, Schrade®, Sharpfinger®, Tipton®, Grilla®, Grilla Grills®, Uncle Henry®, ust®, Wheeler®, XLA Bipod®, Crimson Trace®, Lasergrips®, Laserguard®, LaserLyte®, Lasersaddle®, Lightguard®, and Rail Master® are some of the registered U.S. trademarks of our company or one of our subsidiaries. AOB Products Company™, Dock and Unlock ™, Don't Be Outdoorsy – Be Outdoors™, Engineered for the Unknown™, From Niche to Known™, Lockdown Puck™, MEAT!™, MEAT Your Maker!™, Secure Your Lifestyle™, The Ultimate Lifestyle™, Unmatched Accuracy at the Bench and in the Field™, Water to Plate™, and Your Land. Your Legacy™ are some of the unregistered trademarks of our company or one of our subsidiaries. Trademarks licensed to us by Smith & Wesson Brands, Inc. in connection with the manufacture, distribution, marketing, advertising, promotion, merchandising, shipping, and sale of certain licensed accessory product categories include M&P®, Performance Center®, Smith & Wesson®, and T/C®, among others. This report also may contain trademarks and trade names of other companies.

Statement Regarding Forward-Looking Information

The statements contained in this Quarterly Report on Form 10-Q that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained or incorporated herein by reference in this Quarterly Report on Form 10-Q, including statements regarding our future operating results, future financial position, business strategy, objectives, goals, plans, prospects, markets, and plans and objectives for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “suggests,” “targets,” “contemplates,” “projects,” “predicts,” “may,” “might,” “plan,” “would,” “should,” “could,” “may,” “can,” “potential,” “continue,” “objective,” or the negative of those terms, or similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. Specific forward-looking statements in this Quarterly Report on Form 10-Q include statements regarding the following:

- our expectation that the unrecognized compensation expense related to unvested RSUs and PSUs will be recognized over a weighted average remaining contractual term of one year;
- our intention to vigorously defend ourselves in the lawsuits to which we are subject;
- the possibility that an unfavorable outcome of litigation or prolonged litigation could harm our business;
- the results reported in our condensed consolidated financial statements may not be indicative our future performance;
- our belief that our future ability to fund our operating needs will depend on our future ability to generate positive cash flow from operations and obtain financing on acceptable terms; our belief we will meet known or reasonably likely future cash requirements through the combination of cash flows from operating activities, available cash balances, and available borrowings through our existing $75 million credit facility;
- our expectation that our overall cost of debt funding may increase and decrease the overall debt capacity and commercial credit available to us;
- our future capital requirements' dependency on many factors, including net sales, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the capital needed to operate as an independent publicly traded company, and any acquisitions or strategic investments that we may determine to make;
- the possibility that our ability to take advantage of unexpected business opportunities or to respond to competitive pressures could be limited or severely constrained if sufficient funds are not available or are not available on acceptable terms;
- our expectation to continue to utilize our cash flows to invest in our business, including research and development for new product initiatives; hire additional employees; fund growth strategies, including any potential acquisitions; repay any indebtedness we may incur over time; and to repurchase our common stock if we have authorization to do so;
- the possibility that increased demand for sourced products in various industries could cause further delays at various U.S. ports, which could delay the timing of receipts of our products;
- our expectation that our inventory balance will increase in our first half of fiscal 2024 because of increased inventory purchases to support the fall hunting and winter holiday shopping seasons as well as inventory for new products that we expect to launch later in the year; and
- our expectation that our overall inventory balance will decline by the end of fiscal 2024 as compared to our inventory balance as of April 30, 2023.

A number of factors could cause our actual results to differ materially from those indicated by the forward-looking statements. Such factors include, among others, the following:

- potential disruptions in our suppliers’ ability to source the raw materials necessary for the production of our products, disruptions and delays in the manufacture of our products, and difficulties encountered by retailers and other components of the distribution channel for our products, including delivery of product stemming from port congestion and related transportation challenges;
- lower levels of consumer spending in general and specific to our products or product categories;
- our ability to introduce new products that are successful in the marketplace;
- interruptions of our arrangements with third-party contract manufacturers and freight carriers that disrupt our ability to fill our customers’ orders;
- increases in costs or decreases in availability of finished products, components, and raw materials;
- our ability to maintain or strengthen our brand recognition and reputation;
- the ability to forecast demand for our products accurately;
- our ability to continue to expand our e-commerce business;
- our ability to compete in a highly competitive market;
- our dependence on large customers;

- our ability to attract and retain talent;
- an increase of emphasis on private label products by our customers;
- pricing pressures by our customers;
- our ability to collect our accounts receivable;
- the potential for product recalls, product liability, and other claims or lawsuits against us;
- our ability to protect our intellectual property;
- inventory levels, both internally and in the distribution channel, in excess of demand;
- our ability to identify acquisition candidates, to complete acquisitions of potential acquisition candidates, to integrate acquired businesses with our business, to achieve success with acquired companies, and to realize the benefits of acquisitions in a manner consistent with our expectations;
- the performance and security of our information systems;
- our ability to comply with any applicable foreign laws or regulations and the effect of increased protective tariffs;
- economic, social, political, legislative, and regulatory factors;
- the potential for increased regulation of firearms and firearms- related products;
- the effect of political pressures on firearm laws and regulations;
- the potential impact on our business and operations from the results of federal, state, and local elections and the policies that may be implemented as a result thereof;
- our ability to realize the anticipated benefits of being a separate, public company;
- future investments for capital expenditures, liquidity, and anticipated cash needs and availability;
- the potential for impairment charges;
- estimated amortization expense of intangible assets for future periods;
- actions of social or economic activists that could, directly or indirectly, have an adverse effect on our business;
- disruptions caused by social unrest, including related protests or disturbances;
- our assessment of factors relating to the valuation of assets acquired and liabilities assumed in acquisitions, the timing for such evaluations, and the potential adjustment in such evaluations; and
- other factors detailed from time to time in our reports filed with the Securities and Exchange Commission, or the SEC, including information contained herein.

All forward-looking statements included herein, or in our Annual Report on Form 10-K, are based on information available to us as of their respective dates and speak only as of such dates. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. The forward-looking statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q, or in our Annual Report on Form 10-K, reflect our views as of the date of these reports about future events and are subject to risks, uncertainties, assumptions, and changes in circumstances that may cause our actual results, performance, or achievements to differ significantly from those expressed or implied in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, performance, or achievements.

We are subject to the informational requirements of the Exchange Act, and we file or furnish reports, proxy statements, and other information with the SEC. Such reports and other information we file with the SEC are available free of charge at https://ir.aob.com/financial-information/sec-filings as soon as practicable after such reports are available on the SEC's website at www.sec.gov. The SEC's website contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

AMERICAN OUTDOOR BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of:	
	July 31, 2023 (Unaudited)	April 30, 2023
	(In thousands, except par value and share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,711	$ 21,950
Accounts receivable, net of allowance for credit losses of $131 on July 31, 2023 and $125 on April 30, 2023	23,572	26,846
Inventories	104,913	99,734
Prepaid expenses and other current assets	7,917	7,839
Income tax receivable	1,210	1,251
Total current assets	156,323	157,620
Property, plant, and equipment, net	9,101	9,488
Intangible assets, net	49,229	52,021
Right-of-use assets	23,917	24,198
Other assets	579	260
Total assets	$ 239,149	$ 243,587
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 15,589	$ 11,544
Accrued expenses	9,802	8,741
Accrued payroll, incentives, and profit sharing	2,874	1,813
Lease liabilities, current	918	904
Total current liabilities	29,183	23,002
Notes and loans payable	—	4,623
Lease liabilities, net of current portion	23,833	24,064
Other non-current liabilities	18	34
Total liabilities	53,034	51,723
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 14,542,812 shares issued and 13,060,823 shares outstanding on July 31, 2023 and 14,447,149 shares issued and 13,233,151 shares outstanding on April 30, 2023	15	14
Additional paid in capital	273,415	272,784
Retained deficit	(66,488)	(62,375)
Treasury stock, at cost (1,481,989 shares on July 31, 2023 and 1,213,998 shares on April 30, 2023)	(20,827)	(18,559)
Total equity	186,115	191,864
Total liabilities and equity	$ 239,149	$ 243,587

See accompanying notes to unaudited condensed consolidated financial statements.

AMERICAN OUTDOOR BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months ended July 31,	
	2023	2022
	(In thousands, except per share data)	
Net sales	$ 43,445	$ 43,676
Cost of sales	23,726	24,637
Gross profit	19,719	19,039
Operating expenses:		
Research and development	1,599	1,756
Selling, marketing, and distribution	12,054	11,780
General and administrative	10,151	11,064
Total operating expenses	23,804	24,600
Operating loss	(4,085)	(5,561)
Other income, net:		
Other income, net	39	241
Interest expense, net	(12)	(186)
Total other income, net	27	55
Loss from operations before income taxes	(4,058)	(5,506)
Income tax expense	55	189
Net loss	$ (4,113)	$ (5,695)
Net loss per share:		
Basic	$ (0.31)	$ (0.42)
Diluted	$ (0.31)	$ (0.42)
Weighted average number of common shares outstanding:		
Basic	13,190	13,443
Diluted	13,190	13,443

See accompanying notes to unaudited condensed consolidated financial statements.

AMERICAN OUTDOOR BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

For the three months ended July 31, 2022	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Deficit	Treasury Stock Shares	Treasury Stock Amount	Total Equity
Balance at April 30, 2022	14,240	$ 14	$ 268,393	$ (50,351)	837	$ (15,025)	$ 203,031
Net loss	—	—	—	(5,695)	—	—	(5,695)
Stock-based compensation	—	—	714	—	—	—	714
Issuance of common stock under restricted stock unit awards, net of tax	52	—	(252)	—	—	—	(252)
Balance at July 31, 2022	14,292	$ 14	$ 268,855	$ (56,046)	837	$ (15,025)	$ 197,798

For the three months ended July 31, 2023	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Deficit	Treasury Stock Shares	Treasury Stock Amount	Total Equity
Balance at April 30, 2023	14,447	$ 14	$ 272,784	$ (62,375)	1,214	$ (18,559)	$ 191,864
Net loss	—	—	—	(4,113)	—	—	(4,113)
Stock-based compensation	—	—	932	—	—	—	932
Issuance of common stock under restricted stock unit awards, net of tax	96	1	(301)	—	—	—	(300)
Repurchase of treasury stock	—	—	—	—	268	(2,268)	(2,268)
Balance at July 31, 2023	14,543	$ 15	$ 273,415	$ (66,488)	1,482	$ (20,827)	$ 186,115

See accompanying notes to unaudited condensed consolidated financial statements.

AMERICAN OUTDOOR BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended July 31, 2023	For the Three Months Ended July 31, 2022
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (4,113)	$ (5,695)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,969	4,162
Provision for credit losses on accounts receivable	6	7
Stock-based compensation expense	932	714
Changes in operating assets and liabilities:		
Accounts receivable	3,268	4,952
Inventories	(5,179)	1,045
Prepaid expenses and other current assets	(78)	(2,263)
Income taxes	41	159
Accounts payable	4,115	277
Accrued payroll, incentives, and profit sharing	1,061	17
Right of use assets	297	426
Accrued expenses	1,061	1,781
Other assets	34	(33)
Lease liabilities	(233)	(481)
Other non-current liabilities	(16)	—
Net cash provided by operating activities	5,165	5,068
Cash flows from investing activities:		
Payments to acquire patents and software	(267)	(1,392)
Payments to acquire property and equipment	(569)	(218)
Net cash used in investing activities	(836)	(1,610)
Cash flows from financing activities:		
Payments on notes and loans payable	(5,000)	(5,170)
Payments to acquire treasury stock	(2,268)	—
Cash paid for debt issuance costs	—	(88)
Payment of employee withholding tax related to restricted stock units	(300)	(252)
Net cash used in financing activities	(7,568)	(5,510)
Net decrease in cash and cash equivalents	(3,239)	(2,052)
Cash and cash equivalents, beginning of period	21,950	19,521
Cash and cash equivalents, end of period	$ 18,711	$ 17,469
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 117	$ 161
Income taxes	$ 13	$ 32

See accompanying notes to unaudited condensed consolidated financial statements.

(1) Organization:

American Outdoor Brands, Inc. (our "company," "we," "us," or "our") are a leading provider of outdoor lifestyle products and shooting sports accessories encompassing hunting, fishing, outdoor cooking, camping, shooting, and personal security and defense products for rugged outdoor enthusiasts. We conceive, design, source, and sell our outdoor lifestyle products, including premium sportsman knives and tools for fishing and hunting; land management tools for hunting preparedness; harvesting products for post-hunt or post-fishing activities; outdoor cooking products; and camping, survival, and emergency preparedness products. We conceive, design, produce or source, and sell our shooting sports accessories, such as rests, vaults, and other related accessories; electro-optical devices, including hunting optics, firearm aiming devices, flashlights, and laser grips; and reloading, gunsmithing, and firearm cleaning supplies. We develop and market all our products as well as manufacture some of our electro-optics products at our facility in Columbia, Missouri. We also contract for the manufacture and assembly of most of our products with third parties located in Asia.

We focus on our brands and the establishment of product categories in which we believe our brands will resonate strongly with the activities and passions of consumers and enable us to capture an increasing share of our overall addressable markets. Our owned brands include BOG, BUBBA, Caldwell, Crimson Trace, Frankford Arsenal, Grilla Grills, or Grilla, Hooyman, Imperial, LaserLyte, Lockdown, MEAT! Your Maker, Old Timer, Schrade, Tipton, Uncle Henry, ust, and Wheeler, and we license additional brands for use in association with certain products we sell, including M&P, Smith & Wesson, Performance Center by Smith & Wesson, and Thompson/Center. In focusing on the growth of our brands, we organize our creative, product development, sourcing, and e-commerce teams into four brand lanes, each of which focuses on one of four distinct consumer verticals – Adventurer, Harvester, Marksman, and Defender – with each of our brands included in one of the brand lanes.

- Our Adventurer brands include products that help enhance consumers' fishing, outdoor cooking, and camping experiences.
- Our Harvester brands focus on the activities hunters typically engage in, including the activities to prepare for the hunt, the hunt itself, and the activities that follow a hunt, such as meat processing.
- Our Marksman brands address product needs arising from consumer activities that take place primarily at the shooting range and where firearms are cleaned, maintained, and worked on.
- Our Defender brands include products that are used by consumers in situations that require self-defense and products that help safely secure, store, and maintain connectivity to those possessions that many consumers consider to be high value or high consequence.

(2) Basis of Presentation:

Interim Financial Information

Our unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of the Securities and Exchange Commission, or SEC, for interim reporting. As permitted under those rules, certain disclosures and other financial information that normally are required by accounting principles generally accepted in the United States have been condensed or omitted. Our accounting policies are described in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for our fiscal year ended April 30, 2023. We are responsible for the condensed consolidated financial statements included in this report, which are unaudited but, in our opinion, include all adjustments necessary for a fair presentation of our condensed consolidated balance sheet as of July 31, 2023, our condensed consolidated statement of operations for the three months ended July 31, 2023 and 2022, and our condensed consolidated statement of cash flows for the three months ended July 31, 2023 and 2022. The consolidated balance sheet as of April 30, 2023 was derived from audited financial statements.

The results reported in these condensed consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire fiscal year.

Revenue Recognition

We recognize revenue for the sale of our products at the point in time when the control of ownership has transferred to the customer. The transfer of control typically occurs at a point in time based on consideration of when the customer has (i) a payment obligation, (ii) physical possession of goods has been received, (iii) legal title to goods has passed, (iv) risks and rewards of ownership of goods has passed to the customer, and (v) the customer has accepted the goods. The timing of revenue recognition occurs either on shipment or delivery of goods based on contractual terms with the customer. Revenue recorded excludes sales tax charged to retail customers as we are considered a pass-through conduit for collecting and remitting sales taxes.

The duration of contractual arrangements with customers in our wholesale channels is typically less than one year. Payment terms with customers are typically between 20 and 90 days, with a discount available in certain cases for early payment. For contracts with discounted terms, we determine the transaction price upon establishment of the contract that contains the final terms of the sale, including the description, quantity, and price of each product purchased. We estimate variable consideration relative to the amount of cash discounts to which customers are likely to be entitled. In some instances, we provide longer payment terms, particularly as it relates to our hunting dating programs, which represent payment terms due in the fall for certain orders of hunting products received in the spring and summer. We do not consider these extended terms to be a significant financing component of the contract because the payment terms are less than one year.

We have elected to treat all shipping and handling activities as fulfillment costs and recognize the costs as distribution expenses at the time we recognize the related revenue. Shipping and handling costs billed to customers are included in net sales.

The amount of revenue we recognize reflects the expected consideration to be received for providing the goods or services to customers, which includes estimates for variable consideration. Variable consideration includes allowances for trade term discounts, chargebacks, and product returns. Estimates of variable consideration are determined at contract inception and reassessed at each reporting date, at a minimum, to reflect any changes in facts and circumstances. We apply the portfolio approach as a practical expedient and utilize the expected value method in determining estimates of variable consideration, based on evaluations of specific product and customer circumstances, historical and anticipated trends, and current economic conditions. We have co-op advertising program expense, which we record within advertising expense, in recognition of a distinct service that we receive from our customers at the retail level.

Disaggregation of Revenue

The following table sets forth certain information regarding trade channel net sales for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
e-commerce channels	$ 18,376	$ 20,545	$ (2,169)	-10.6%
Traditional channels	25,069	23,131	1,938	8.4%
Total net sales	$ 43,445	$ 43,676	$ (231)	-0.5%

Our e-commerce channels include net sales from customers that do not traditionally operate a physical brick-and-mortar store, but generate the majority of their revenue from consumer purchases at their retail websites. Our e-commerce channels also include our direct-to-consumer sales. Our traditional channels include customers that operate primarily out of physical brick and mortar stores and generate the large majority of their revenue from consumer purchases at their brick-and-mortar locations.

We sell our products worldwide. The following table sets forth certain information regarding geographic makeup of net sales included in the above table for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Domestic net sales	$ 39,789	$ 40,276	$ (487)	-1.2%
International net sales	3,656	3,400	256	7.5%
Total net sales	$ 43,445	$ 43,676	$ (231)	-0.5%

The following table sets forth certain information regarding net sales in our shooting sports and outdoor lifestyle categories for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Shooting sports	$ 20,075	$ 20,389	$ (314)	-1.5%
Outdoor lifestyle	23,370	23,287	83	0.4%
Total net sales	$ 43,445	$ 43,676	$ (231)	-0.5%

Recently Adopted Accounting Standards

No recent accounting pronouncements are expected to have a material impact on our condensed consolidated financial statements.

(3) Leases:

We lease real estate, as well as other equipment, under non-cancelable operating lease agreements. We recognize expenses under our operating lease assets and liabilities at the commencement date based on the present value of lease payments over the lease terms. Our leases do not provide an implicit interest rate. We use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. Our lease agreements do not require material variable lease payments, residual value guarantees, or restrictive covenants. For operating leases, we recognize expense on a straight-line basis over the lease term. We record tenant improvement allowances as an offsetting adjustment included in our calculation of the respective right-of-use asset.

Many of our leases include renewal options that can extend the lease term. These renewal options are at our sole discretion and are reflected in the lease term when they are reasonably certain to be exercised. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

The amounts of assets and liabilities related to our operating leases as of July 31, 2023 and April 30, 2023 are as follows (in thousands):

	July 31, 2023	April 30, 2023
Operating Leases		
Right-of-use assets	$ 27,001	$ 26,999
Accumulated amortization	(3,084)	(2,801)
Right-of-use assets, net	$ 23,917	$ 24,198
Lease liabilities, current portion	$ 918	$ 904
Lease liabilities, net of current portion	23,833	24,064
Total operating lease liabilities	$ 24,751	$ 24,968

For the three months ended July 31, 2023, we recorded $827,000 of operating lease costs, of which $2,000 were short-term operating lease costs. For the three months ended July 31, 2022, we recorded $1.0 million of operating lease costs, of which $47,000 were short-term operating lease costs. As of July 31, 2023, our weighted average lease term and weighted average discount rate for our operating leases were 15.3 years and 5.4%, respectively. The operating lease costs, weighted average lease term, and weighted average discount rate, are primarily driven by the sublease of our corporate office and warehouse facility in Columbia, Missouri through fiscal 2039. The depreciable lives of right-of-use assets are limited by the lease term and are amortized on a straight-line basis over the life of the lease.

Future lease payments for all our operating leases for the remainder of fiscal 2024 and for succeeding fiscal years, as of July 31, 2023, are as follows (in thousands):

	Operating
2024	$ 1,680
2025	2,241
2026	2,178
2027	2,207
2028	2,238
Thereafter	26,426
Total future lease payments	36,970
Less amounts representing interest	(12,219)
Present value of lease payments	24,751
Less current maturities of lease liabilities	(918)
Long-term maturities of lease liabilities	$ 23,833

The cash paid for amounts included in the measurement of the liabilities and the operating cash flows was $233,000 and $481,000 for the three months ended July 31, 2023 and 2022, respectively.

(4) Intangible Assets, net:

The following table summarizes intangible assets as of July 31, 2023 and April 30, 2023 (in thousands):

	July 31, 2023			April 30, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 89,980	$ (75,245)	$ 14,735	$ 89,980	$ (74,035)	$ 15,945
Developed software and technology	27,164	(18,637)	8,527	31,022	(21,978)	9,044
Patents, trademarks, and trade names	69,019	(45,536)	23,483	68,943	(44,042)	24,901
	186,163	(139,418)	46,745	189,945	(140,055)	49,890
Patents and software in development	2,054	—	2,054	1,701	—	1,701
Total definite-lived intangible assets	188,217	(139,418)	48,799	191,646	(140,055)	51,591
Indefinite-lived intangible assets	430	—	430	430	—	430
Total intangible assets	$ 188,647	$ (139,418)	$ 49,229	$ 192,076	$ (140,055)	$ 52,021

We amortize intangible assets with determinable lives over a weighted-average period of approximately five years. The weighted-average periods of amortization by intangible asset class is approximately five years for customer relationships, six years for developed software and technology, and six years for patents, trademarks, and trade names. Amortization expense amounted to $3.2 million and $3.4 million for the three months ended July 31, 2023 and 2022, respectively.

Future expected amortization expense for the remainder of fiscal 2024 and for succeeding fiscal years, as of July 31, 2023, are as follows (in thousands):

Fiscal	Amount
2024	$ 9,651
2025	9,422
2026	8,074
2027	5,749
2028	4,465
Thereafter	9,384
Total	$ 46,745

(5) Fair Value Measurement:

We follow the provisions of ASC 820-10, *Fair Value Measurements and Disclosures Topic*, or ASC 820-10, for our financial assets and liabilities. ASC 820-10 provides a framework for measuring fair value under GAAP and requires expanded disclosures regarding fair value measurements. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value.

Financial assets and liabilities recorded on the accompanying condensed consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we have the ability to access at the measurement date (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Our cash and cash equivalents, which are measured at fair value on a recurring basis, totaled $18.7 million as of July 31, 2023 and $22.0 million as of April 30, 2023. Cash and cash equivalents are reported at fair value based on market prices for identical assets in active markets, and therefore classified as Level 1 of the value hierarchy.

Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets in which trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- quoted prices for identical or similar assets or liabilities in non-active markets (such as corporate and municipal bonds which trade infrequently);
- inputs other than quoted prices that are observable for substantially the full term of the asset or liability (such as interest rate and currency swaps); and
- inputs that are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability (such as certain securities and derivatives).

Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect our assumptions about the assumptions a market participant would use in pricing the asset or liability.

We currently do not have any Level 3 financial assets or liabilities as of July 31, 2023.

(6) Inventories:

The following table sets forth a summary of inventories, stated at lower of cost or net realizable value, as of July 31, 2023 and April 30, 2023 (in thousands):

	July 31, 2023	April 30, 2023
Finished goods	$ 95,837	$ 90,906
Finished parts	3,088	2,818
Work in process	77	66
Raw material	5,911	5,944
Total inventories	$ 104,913	$ 99,734

Certain of our suppliers in Asia require deposits to procure our inventory prior to beginning the manufacturing process. These deposits on our inventory varies by supplier and range from 30% to 100%. As of July 31, 2023 and April 30, 2023, we have recorded $5.1 million and $4.3 million, respectively, in prepaid expenses and other current assets on our consolidated balance sheet.

(7) Debt:

On August 24, 2020, we entered into a financing arrangement consisting of a $50.0 million revolving line of credit secured by substantially all our assets, maturing five years from the closing date, with available borrowings determined by a borrowing base calculation. The revolving line included an option to increase the credit commitment by an additional $15 million. The revolving line bore interest at a fluctuating rate equal to the Base Rate or LIBOR, as applicable, plus the applicable margin.

On March 25, 2022, we amended our secured loan and security agreement, or the Amended Loan and Security Agreement, increasing the revolving line of credit to $75 million, secured by substantially all our assets, maturing in March 2027, with available borrowings determined by a borrowing base calculation. The amendment also includes an option to increase the credit commitment by an additional $15 million. The amended revolving line bears interest at a fluctuating rate equal to the Base Rate or Secured Overnight Financing Rate, or SOFR, as applicable, plus the applicable margin. The applicable margin can range from a minimum of 0.25% to a maximum of 1.75% based on certain conditions as defined in the Amended Loan and Security Agreement. The financing arrangement contains covenants relating to minimum debt service coverage.

As of July 31, 2023, we had no borrowings outstanding on the revolving line of credit. If we would have had borrowings at July 31, 2023, those borrowings would have borne interest at approximately 6.81%, which is equal to SOFR plus the applicable margin.

In the fiscal year ended April 30, 2023, we executed an irrevocable standby letter of credit for $1.7 million to collateralize duty drawback bonds. During the three months ended July 31, 2023, no amounts have been drawn on the letter of credit.

(8) Equity:

Treasury Stock

On September 30, 2022, our Board of Directors authorized the repurchase of up to $10.0 million of our common stock, subject to certain conditions, in the open market, in block purchases, or in privately negotiated transactions, executable through September 29, 2023. During the three months ended July 31, 2023, under this authorization, we repurchased 267,991 shares of our common stock for $2.3 million, utilizing cash on hand.

Earnings per Share

We compute diluted earnings per share by giving effect to all potentially dilutive stock awards that are outstanding. The computation of diluted earnings per share excludes the effect of the potential exercise of stock-based awards when the effect of the potential exercise would be anti-dilutive. Due to the loss from operations for the three months ended July 31, 2023 and 2022, respectively, there are no common shares added to calculate dilutive earnings per share because the effect would be antidilutive.

Incentive Stock and Employee Stock Purchase Plans

We have a stock incentive plan, or 2020 Incentive Compensation Plan, under which we can grant new awards to our employees and directors.

We grant Restricted Stock Units, or RSUs, to employees and directors. The awards are made at no cost to the recipient. An RSU represents the right to receive one share of our common stock and does not carry voting or dividend rights. Except in specific circumstances, RSU grants to employees generally vest over a period of three or four years with one-third or one-fourth of the units vesting on each anniversary of the grant date, respectively. We amortize the aggregate fair value of our RSU grants to compensation expense over the vesting period. Awards that do not vest are forfeited.

We grant performance stock units, or PSUs, to our executive officers and certain other employees from time to time. At the time of grant, we calculate the fair value of our PSUs using the Monte-Carlo simulation. We incorporate the following variables into the valuation model:

	For the Three Months ended July 31,	
	2023	2022
Grant date fair market value		
American Outdoor Brands, Inc.	$ 8.79	$ 12.70
Russell 2000 Index	$ 1,769.21	$ 1,882.91
Volatility (a)		
American Outdoor Brands, Inc.	45.53%	49.04%
Russell 2000 Index	27.08%	31.75%
Correlation coefficient (b)	0.48	0.50
Risk-free interest rate (c)	3.81%	2.91%
Dividend yield (d)	0%	0%

(a) Expected volatility is calculated based on a peer group over the most recent period that represents the remaining term of the performance period as of the valuation date, or three years.
(b) The correlation coefficient utilizes the same historical price data used to develop the volatility assumptions.
(c) The risk-free interest rate is based on the yield of a zero-coupon U.S. Treasury bill, commensurate with the three-year performance period.
(d) We do not expect to pay dividends in the foreseeable future.

The PSUs vest, and the fair value of such PSUs will be recognized, over the corresponding three-year performance period. Our PSUs have a maximum aggregate award equal to 200% of the target unit amount granted. Generally, the number of PSUs that may be earned depends upon the total stockholder return, or TSR, of our common stock compared with the TSR of the Russell 2000 Index, or the RUT, over the three-year performance period. For PSUs, our stock must outperform the RUT by 5% in order for the target award to vest. In addition, there is a cap on the number of shares that can be earned under our PSUs, which is equal to six times the grant-date value of each award.

During the three months ended July 31, 2023, we granted an aggregate of 75,894 PSUs to our executive officers. We also granted 261,724 RSUs during the three months ended July 31, 2023, including 101,091 RSUs to executive officers and 160,633 to non-executive officer employees under our 2020 Incentive Compensation Plan. During the three months ended July 31, 2023, 30,446 PSUs were cancelled as a result of the performance condition not being met, and 9,813 RSUs were cancelled as a result of the service condition not being met. In connection with the vesting of RSUs, during the three months ended July 31, 2023, we delivered common stock to our employees, including our executive officers and directors with a total market value of $1.1 million.

During the three months ended July 31, 2022, we granted an aggregate of 52,277 market-condition PSUs to our executive officers. We also granted 192,489 service-based RSUs during the three months ended July 31, 2022, including 52,277 RSUs to executive officers and 140,212 to non-executive officer employees under our 2020 Incentive Compensation Plan. In addition, in connection with a 2019 grant, we vested 7,200 market-condition PSUs (i.e., the target amount granted), which achieved 200% of the maximum aggregate award possible, resulting in awards totaling 14,400 shares to certain of our executive officers and employees of our former parent. During the three months ended July 31, 2022, we cancelled 2,225 service-based RSUs as a result of the service condition not being met. In connection with the vesting of RSUs, during the three months ended July 31, 2022, we delivered common stock to our employees, including our executive officers and directors with a total market value of $854,000.

We recognized $932,000 and $714,000 of stock-based compensation expense for the three months ended July 31, 2023 and 2022, respectively.

We include stock-based compensation expense in the cost of sales, sales and marketing, research and development, and general and administrative expenses.

A summary of activity for unvested RSUs and PSUs under our 2020 Incentive Compensation Plan for the three months ended July 31, 2023 and 2022 is as follows:

	For the Three Months Ended July 31,			
	2023		2022	
	Total # of Restricted Stock Units	Weighted Average Grant Date Fair Value	Total # of Restricted Stock Units	Weighted Average Grant Date Fair Value
RSUs and PSUs outstanding, beginning of period	560,579	$ 13.36	349,774	$ 15.93
Awarded	337,618	8.52	251,966	11.58
Vested	(132,110)	11.97	(73,055)	14.77
Forfeited	(40,259)	9.59	(2,225)	21.86
RSUs and PSUs outstanding, end of period	725,828	$ 11.57	526,460	$ 13.99

As of July 31, 2023, there was $3.7 million of unrecognized compensation expense related to unvested RSUs and PSUs. We expect to recognize this expense over a weighted average remaining contractual term of 1.6 years.

(9) Accrued Expenses:

The following table sets forth other accrued expenses as of July 31, 2023 and April 30, 2023 (in thousands):

	July 31, 2023	April 30, 2023
Accrued freight	$ 3,126	$ 1,962
Accrued sales allowances	2,111	2,453
Accrued professional fees	1,152	1,106
Accrued commissions	1,084	1,072
Accrued warranty	939	966
Accrued employee benefits	789	568
Accrued taxes other than income	351	346
Accrued other	250	268
Total accrued expenses	$ 9,802	$ 8,741

(10) Income Taxes:

The income tax expense included in the condensed consolidated statements of operations is based upon the estimated effective tax rate for the year, adjusted for the impact of discrete items which are accounted for in the period in which they occur. We recorded income tax expense of $55,000 and $189,000 for the three months ended July 31, 2023 and 2022, respectively. The effective tax rate for the three months ended July 31, 2023 and 2022 was (1.4%) and (3.4%), respectively. Income tax expense for the three months ended July 31, 2022 included a discrete tax benefit of $40,000 associated with stock-based compensation.

(11) Commitments and Contingencies:

Litigation

From time to time, we are involved in lawsuits, claims, investigations, and proceedings, including those relating to product liability, intellectual property, commercial relationships, employment issues, and governmental matters, which arise in the ordinary course of business.

For the three months ended July 31, 2023 and 2022, we did not incur any material expenses in defense and administrative costs relative to product liability litigation. In addition, we did not incur any settlement fees related to product liability cases in those fiscal years.

Assignment and Assumption Agreement

On January 31, 2023, we entered an Assignment Agreement with our former parent company and RCS – S&W Facility, LLC to assign to us the rights of the tenant under the Lease Agreement, dated October 26, 2017, as amended by the First Amendment of Lease Agreement, dated October 25, 2018, and as further amended by the Second Amendment to Lease Agreement, dated January 31, 2019 (collectively, the “Lease”), which assignment will be effective on January 1, 2024, subject to certain conditions.

The Lease covers approximately 632,000 square feet of building and surrounding property located at 1800 North Route Z, Columbia, Boone County, Missouri, or the Building where we currently sublease approximately 361,000 square feet from our former parent company, or the Sublease. If the conditions precedent set forth in the Assignment Agreement are satisfied, then effective on January 1, 2024, we will no longer be subject to the provisions and terms of the Sublease, but instead we will have use of the entire Building under the Lease. The Lease provides the tenant with an option to expand the Building by up to 491,000 additional square feet. The Lease term ends on November 26, 2038 and, pursuant to the Assignment Agreement, does not provide for an extension of the term of the Lease. Upon the effectiveness of the Lease assignment, the total annual expense under the Lease, including base rent, is estimated at $3.7 million, which represents an incremental $1.3 million above our annual expense under the Sublease, which we expect will be entirely offset by savings from facility consolidations completed in fiscal 2023 and efficiencies gained in our distribution processes. We expect an increase of $12.8 million will be recorded as a right-of-use asset on our consolidated balance sheet, when effective. We also expect to receive tax and other incentives from federal, state, and local governmental authorities previously received by our former parent. Our former parent will guarantee the Lease through the end of the term.

Gain Contingency

In 2018, the United States imposed additional section 301 tariffs of up to 25% on certain goods imported from China. These additional section 301 tariffs apply to our sourced products from China and have added additional cost to us. We are utilizing the duty drawback mechanism to offset some of the direct impact of these tariffs, specifically on goods that we sell internationally. We are accounting for duty drawbacks as a gain contingency and may record any such gain from a reimbursement in future periods if and when the contingency is resolved.

(12) Segment Reporting:

We have evaluated our operations under ASC 280-10-50-1 – Segment Reporting and have concluded that we are operating as one segment based on several key factors, including the reporting and review process used by the chief operating decision maker, our Chief Executive Officer, who reviews only consolidated financial information and makes decisions to allocate resources based on those financial statements. We analyze revenue streams in various ways, including customer group, brands, product categories, and customer channels. However, this information does not include a full set of discrete financial information. In addition, although we currently sell our products under 21 distinct brands that are organized into four brand lanes and include specific product sales that have identified revenue streams, these brand lanes are focused almost entirely on product development and marketing activities and do not qualify as separate reporting units under ASC 280-10-50-1. Other sales and customer focused activities, operating activities, and administrative activities are not divided by brand lane and, therefore, expenses related to each brand lane are not accumulated or reviewed individually. Our business is evaluated based upon a number of financial and operating measures, including sales, gross profit and gross margin, operating expenses, and operating margin.

Our business includes our outdoor products and accessories products as well as our electro-optics products, which we develop, source, market, assemble, and distribute from our facility in Columbia, Missouri. We report operating costs based on the activities performed.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Overview

The following discussion and analysis of our financial condition and results of operations for the three months ended July 31, 2023 and 2022 should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for fiscal year ended April 30, 2023. This discussion and analysis should also be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q.

The following discussion and analysis includes forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and other factors that could cause our actual results to differ materially from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to these differences include those discussed above in "Statement Regarding Forward-Looking Information" in this Form 10-Q. In addition, this section sets forth key objectives and performance indicators used by us, as well as key industry data tracked by us.

The following discussion and analysis includes references to net sales of our products in shooting sports and outdoor lifestyle categories. Our shooting sports category includes net sales of shooting accessories and our products used for personal protection. Our outdoor lifestyle category includes net sales of our products used in hunting, fishing, camping, rugged outdoor activities, and outdoor cooking.

First Quarter Fiscal 2023 Highlights

Our operating results for the three months ended July 31, 2023 included the following:

- Net sales were $43.4 million, a decrease of $231,000, or 0.5%, from the comparable quarter last year.
- Gross margin was 45.4%, an increase of 180 basis points from the comparable quarter last year.
- Net loss was $4.1 million, or $0.31 per diluted share, compared with a net loss of $5.7 million, or $0.42 per diluted share, for the comparable quarter last year.
- Non-GAAP Adjusted EBITDAS was $1.1 million for the three months ended July 31, 2023 compared with $1.4 million for the three months ended July 31, 2022. See non-GAAP financial measure disclosures below for our reconciliation of non-GAAP Adjusted EBITDAS.

Results of Operations

Net Sales and Gross Profit

The following table sets forth certain information regarding consolidated net sales and gross profit for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Net sales	$ 43,445	$ 43,676	$ (231)	-0.5%
Cost of sales	23,726	24,637	(911)	-3.7%
Gross profit	$ 19,719	$ 19,039	$ 680	3.6%
% of net sales (gross margin)	45.4%	43.6%		

The following table sets forth certain information regarding trade channel net sales for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
e-commerce channels	$ 18,376	$ 20,545	$ (2,169)	-10.6%
Traditional channels	25,069	23,131	1,938	8.4%
Total net sales	$ 43,445	$ 43,676	$ (231)	-0.5%

Our e-commerce channels include net sales from customers that do not traditionally operate physical brick-and-mortar stores, but generate the majority of their revenue from consumer purchases from their retail websites. Our e-commerce channels also include our direct-to-consumer sales. Our traditional channels include customers that primarily operate out of physical brick-and-mortar stores and generate the large majority of revenue from consumer purchases in their brick-and-mortar locations.

We sell our products worldwide. The following table sets forth certain information regarding geographic makeup of net sales included in the above table for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Domestic net sales	$ 39,789	$ 40,276	$ (487)	-1.2%
International net sales	3,656	3,400	256	7.5%
Total net sales	$ 43,445	$ 43,676	$ (231)	-0.5%

The following table sets forth certain information regarding net sales categories for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Shooting sports	$ 20,075	$ 20,389	$ (314)	-1.5%
Outdoor lifestyle	23,370	23,287	83	0.4%
Total net sales	$ 43,445	$ 43,676	$ (231)	-0.5%

For the three months ended July 31, 2023, total net sales decreased $231,000, or 0.5%, from the comparable quarter last year because of reduced net sales of our shooting sports product category, partially offset by increased net sales of our outdoor lifestyle products.

Net sales in our e-commerce channel decreased $2.2 million, or 10.6%, from the comparable quarter last year, primarily because of lower net sales to the world's largest e-commerce retailer as a result of reduced dema{nd. Our decline in net sales in our e-commerce channel was partially offset by higher net sales for certain hunting and shooting products in our outdoor lifestyle product category to other online retailers. In addition, online net sales of our direct-to-consumer only brands increased 5.1% over the comparable quarter last year and those brands generated 35.7% of total e-commerce net sales.

Net sales in our traditional channels increased $1.9 million, or 8.4%, from the comparable quarter last year, primarily because of increased net sales in our outdoor lifestyle category as a result of new hunting and fishing product introductions.

New products, which we define as any SKU introduced over the prior two fiscal years, represented 21.1% of net sales for the three months ended July 31, 2023.

Gross margin for the three months ended July 31, 2023 increased 180 basis points from the comparable quarter last year, primarily because of lower in-bound freight costs as a result of reduced shipping container costs.

Operating Expenses

The following table sets forth certain information regarding operating expenses for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Research and development	$ 1,599	$ 1,756	$ (157)	-8.9%
Selling, marketing, and distribution	12,054	11,780	274	2.3%
General and administrative	10,151	11,064	(913)	-8.3%
Total operating expenses	$ 23,804	$ 24,600	$ (796)	-3.2%
% of net sales	54.8%	56.3%		

Research and development expenses were relatively flat from the comparable quarter last year. Selling, marketing, and distribution expenses increased $274,000 over the comparable quarter last year, primarily because of increased outbound freight costs. General and administrative expenses decreased $913,000 from the comparable quarter last year, primarily because of lower legal and advisory fees associated with the completed cooperation agreement with a stockholder that was completed in the prior fiscal year and lower rent expense as result of the facility consolidations we completed in the prior fiscal year.

Operating Loss

The following table sets forth certain information regarding operating loss for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Operating loss	$ (4,085)	$ (5,561)	$ 1,476	-26.5%
% of net sales (operating margin)	-9.4%	-12.7%		

Operating loss for the three months ended July 31, 2023 was $4.1 million, a $1.5 million decrease from an operating loss of $5.6 million for the three months ended July 31, 2022, primarily because of lower operating expenses and higher gross profit as described above.

Income Taxes

The following table sets forth certain information regarding income tax expense for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Income tax expense	$ 55	$ 189	$ (134)	-70.9%
% of income from operations (effective tax rate)	-1.4%	-3.4%		2.0%

We recorded income tax expense of $55,000 for the three months ended July 31, 2023, compared with income tax expense of $189,000 for the prior year comparable quarter because of a higher estimated effective tax rate for the year. The income tax expense recorded during the three months ended July 31, 2023 and 2022 was primarily due to a full valuation allowance recorded against our deferred tax assets.

Net Loss

The following table sets forth certain information regarding net loss and the related per share data for the three months ended July 31, 2023 and 2022 (dollars in thousands, except per share data):

	2023	2022	$ Change	% Change
Net loss	$ (4,113)	$ (5,695)	$ 1,582	-27.8%
Net loss per share				
Basic	$ (0.31)	$ (0.42)	$ 0.11	-26.2%
Diluted	$ (0.31)	$ (0.42)	$ 0.11	-26.2%

Net loss was $4.1 million, or $0.31 per diluted share, for the three months ended July 31, 2023 compared with net loss of $5.7 million, or $0.42 per share, for the comparable quarter last year, primarily because of lower operating expenses and higher gross profit.

Non-GAAP Financial Measure

We use GAAP net income as our primary financial measure. We use Adjusted EBITDAS, which is a non-GAAP financial metric, as a supplemental measure of our performance in order to provide investors with an improved understanding of underlying performance trends, and it should be considered in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Adjusted EBITDAS is defined as GAAP net income/(loss) before interest, taxes, depreciation, amortization, and stock compensation expense. Our Adjusted EBITDAS calculation also excludes certain items we consider non-routine. We believe that Adjusted EBITDAS is useful to understanding our operating results and the ongoing performance of our underlying business, as Adjusted EBITDAS provides information on our ability to meet our capital expenditure and working capital requirements, and is also an indicator of profitability. We believe this reporting provides additional transparency and comparability to our operating results. We believe that the presentation of Adjusted EBITDAS is useful to investors because it is frequently used by analysts, investors, and other interested parties to evaluate companies in our industry. We use Adjusted EBITDAS to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, and to neutralize our capitalization structure to compare our performance against that of other peer companies using similar measures, especially companies that are private. We also use Adjusted EBITDAS to supplement GAAP measures of performance to evaluate our performance in connection with compensation decisions. We believe it is useful to investors and analysts to evaluate this non-GAAP measure on the same basis as we use to evaluate our operating results.

Adjusted EBITDAS is a non-GAAP measure and may not be comparable to similar measures reported by other companies. In addition, non-GAAP measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. We address the limitations of non-GAAP measures through the use of various GAAP measures. In the future, we may incur expenses or charges such as those added back to calculate Adjusted EBITDAS. Our presentation of Adjusted EBITDAS should not be construed as an inference that our future results will be unaffected by these items.

The following table sets forth our calculation of non-GAAP Adjusted EBITDAS for the three months ended July 31, 2023 and 2022, respectively (dollars in thousands):

	For the Three Months Ended July 31, 2023	For the Three Months Ended July 31, 2022
	(Unaudited)	
GAAP net loss	$ (4,113)	$ (5,695)
Interest expense	12	186
Income tax expense	55	189
Depreciation and amortization	3,945	4,162
Stock compensation	932	714
Technology implementation	293	769
Acquisition costs	—	47
Stockholder cooperation agreement costs	—	1,010
Non-GAAP Adjusted EBITDAS	$ 1,124	$ 1,382

Liquidity and Capital Resources

We expect to continue to utilize our cash flows to invest in our business, including research and development for new product initiatives; to hire additional employees; to fund growth strategies, including any potential acquisitions; to make payments on any indebtedness we may incur over time; and to repurchase shares of our common stock if we are authorized to do so.

The following table sets forth certain cash flow information for the three months ended July 31, 2023 and 2022 (dollars in thousands):

	2023	2022	$ Change	% Change
Operating activities	$ 5,165	$ 5,068	$ 97	1.9 %
Investing activities	(836)	(1,610)	774	-48.1 %
Financing activities	(7,568)	(5,510)	(2,058)	37.4 %
Total cash flow	$ (3,239)	$ (2,052)	$ (1,187)	57.8 %

Operating Activities

On an annual basis, operating activities generally represent the principal source of our cash flow.

Cash generated by operating activities was $5.2 million for the three months ended July 31, 2023 compared with cash generated by operating activities of $5.1 million for the three months ended July 31, 2022. Cash generated by operating activities for the three months ended July 31, 2023 was primarily impacted by $3.3 million of lower accounts receivable due to timing of customer shipments and $4.1 million of increased accounts payable due to timing of supplier payments. Cash generated was offset by $5.2 million of higher inventory as a result of a planned inventory build during the period to prepare for the fall hunting and winter holiday seasons as well as additional purchases for new product introductions that will launch later in the year.

Investing Activities

Cash used in investing activities was $774,000 lower during the three months ended July 31, 2023 as compared with the prior year comparable period, primarily from reduced spending on the development and implementation of our independent information technology infrastructure and enterprise resource planning system that was completed in the prior fiscal year. We expect to spend approximately $6.0 million to $7.0 million of capital expenditures in fiscal 2024, an increase of $1.1 million to $2.1 million over fiscal 2023.

Financing Activities

Cash used in financing activities was $7.6 million for the three months ended July 31, 2023, primarily from $5.0 million to payoff all our borrowings on our revolving line of credit and $2.3 million used to repurchase 267,991 shares of our common stock.

Our future capital requirements will depend on many factors, including net sales, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, any acquisitions or strategic investments that we may determine to make, and changes in consumer spending, which is sensitive to economic conditions and other factors. Further equity or debt financing may not be available to us on acceptable terms or at all. If sufficient funds are not available or are not available on acceptable terms, our ability to take advantage of unexpected business opportunities or to respond to competitive pressures could be limited or severely constrained.

We had $18.7 million of cash equivalents on hand as of July 31, 2023 and had $22.0 million in cash and cash equivalents on hand as of April 30, 2023.

Other Matters

Critical Accounting Policies

The preparation of our condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Significant accounting policies are summarized in Note 2 of the Notes to the consolidated and combined financial statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2023. The most significant areas involving our judgments and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended April 30, 2023, to which there have been no material changes. Actual results could differ from our estimates.

Recent Accounting Pronouncements

The nature and impact of recent accounting pronouncements, if any, is discussed in Note *2—Basis of Presentation* to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

There were no material changes from the information provided in Quantitative and Qualitative Disclosures about Market Risk in the Form 10-K.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

As of July 31, 2023, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) and have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter ended July 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

The nature of legal proceedings against us is discussed in Note 11 — *Commitments and Contingencies* to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 1A. *Risk Factors*

We have disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K, filed with the SEC on June 28, 2023, risk factors that materially affect our business, financial condition, or results of operations. There have been no material changes from the risk factors previously disclosed.

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

The following table sets forth certain information relating to the purchases of our common stock by us and any affiliated purchases within the meaning of Rule 10b5-1 of the Exchange Act during the three months ended July 31, 2023 (dollars in thousands, except per share data):

Period	Total # of Shares Purchased	Average Price Paid Per Share (2)	Total # of Shares Purchased as Part of Publicly Announced Plan or Program (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
May 1, 2023 to May 31, 2023	43,566	8.06	43,566	6,126
June 1, 2023 to June 30, 2023	82,293	7.84	125,859	5,481
July 1, 2023 to July 31, 2023	142,132	8.89	267,991	4,217
Total first quarter fiscal year 2024	267,991	8.43	267,991	4,217
Total year-to-date fiscal year 2024	267,991	$ 8.43	267,991	$ 4,217

(1) On September 30, 2022, our Board of Directors authorized the repurchase of up to $10.0 million of our common stock, subject to certain conditions, in the open market, in block purchases, or in privately negotiated transactions executable through September 29, 2023. During the three months ended July 31, 2023, under this authorization, we repurchased 267,991 shares of our common stock, in the open market, for $2.3 million under this authorization, utilizing cash on hand.

(2) The average price per share excludes fees paid to acquire the shares.

Item 5. *Other Information*

During the quarter ended July 31, 2023, none of our directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (in each case, as defined in item 408 of Regulation S-K).

Item 6. ***Exhibits***

The exhibits listed on the Index to Exhibits (immediately preceding the signatures section of this Quarterly Report on Form 10-Q) are included herewith or incorporated herein by reference.

INDEX TO EXHIBITS

10.1	First Amendment to Cooperation Agreement, dated May 24, 2023, by and among the Engine Group and the Registrant (1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).
(1)	Incorporated by reference to the Registrant's Form 8-K filed with the SEC on May 26, 2023

SIGNATURES

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

AMERICAN OUTDOOR BRANDS, INC.,
a Delaware corporation

Date: September 7, 2023

By: */s/ Brian D. Murphy*
Brian D. Murphy
President and Chief Executive Officer

Date: September 7, 2023

By: */s/ H. Andrew Fulmer*
H. Andrew Fulmer
Executive Vice President,
Chief Financial Officer, and Treasurer

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian D. Murphy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Outdoor Brands, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 7, 2023

By: /s/ *Brian D. Murphy*
Brian D. Murphy
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, H. Andrew Fulmer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Outdoor Brands, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 7, 2023

By: */s/ H. Andrew Fulmer*
H. Andrew Fulmer
Executive Vice President,
Chief Financial Officer, and Treasurer

Exhibit 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

In connection with the Quarterly Report of American Outdoor Brands, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian D. Murphy, the President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: September 7, 2023

By: */s/ Brian D. Murphy*
Brian D. Murphy
President and Chief Executive Officer

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of American Outdoor Brands, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 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**

In connection with the Quarterly Report of American Outdoor Brands, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Andrew Fulmer, the Executive Vice President, Chief Financial Officer, and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: September 7, 2023

By: */s/ H. Andrew Fulmer*
H. Andrew Fulmer
Executive Vice President,
Chief Financial Officer, and Treasurer

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of American Outdoor Brands, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.