



2100 Roosevelt Avenue
PO Box 2208
Springfield, MA 01102-2208

March 6, 2018

Ms. Michelle Edkins
Global Head of BlackRock Investment Stewardship

Ms. Yumi Narita
BlackRock Investment Stewardship

Dear Ms. Edkins and Ms. Narita:

We are in receipt of your letter dated March 1, 2018, requesting a meeting with us during which you may ask a series of questions, many of which have been publicly posted. Please accept this letter, and its attachments, as a written reply to those questions. This information can also be found on our website at www.aob.com under the investor relations tab.

As you review the contents of this reply, we believe it is important to tell you that we respect the national debate that is currently underway regarding firearms and safety. We share the nation's grief over the incomprehensible and senseless loss of life at Parkland, Florida, and we share the desire to make our communities safer. Through our membership and work with the National Shooting Sports Foundation, we will continue to support the development of effective solutions that accomplish that objective while protecting the rights of the law-abiding firearm owner.

We are a proud and law-abiding company that is rooted in the history of America – a country built on the freedoms and processes that we all treasure. As such, we support a comprehensive discussion regarding preventing violence in our communities, and we are committed to reviewing all reasonable proposals with an open mind. However, we also believe that the first course of action must be to enforce existing laws, address the challenges of acute mental illness in our society, and improve the NICS background check system, the very purpose of which is to prevent unauthorized access to firearms by irresponsible persons and those not legally qualified to possess them.

The solution is not to take a politically motivated action that has an adverse impact on our company, our employees, our industry, our shareholders, the economies we support and, significantly, the rights of our law abiding customers, but results in no increase in public safety. We must collectively have the courage to ensure any actions are guided by data, by facts, and by what will actually make us safer -- not by what is easy, expedient, or reads well in a headline.

Respectfully,

A handwritten signature in black ink, appearing to be "B. Monheit".

Barry M. Monheit
Chairman of the Board

A handwritten signature in black ink, appearing to be "J. Debney".

James Debney
President & CEO

**Response of American Outdoor Brands Corporation
to the Questions Raised in BlackRock’s Letter dated March 1, 2018**

Introduction

American Outdoor Brands Corporation (“AOBC”) is a leading manufacturer of firearms, including the historic Smith & Wesson brand. On March 1, 2018, we received a letter from BlackRock’s Global Head of Investment Stewardship (the “March 1 Letter”), requesting a meeting with us, and informing us that during the meeting, we may be asked the following questions:

- *What is your strategy for and process related to managing the reputational, financial and litigation risk associated with manufacturing civilian firearms?*
- *How do you assess the financial, reputational and litigation risks of the various aspects of your product lines and how is each of those products distributed?*
- *What steps do you take to support the safe and responsible use of your products?*
- *How do you determine where you will allow your products to be distributed? (e.g., Do your distribution channels include private sales? Do you require distributors to disclose to you warnings from the Bureau of Alcohol, Tobacco & Firearms? Do you monitor whether distributors and retailers of your products have a high volume of their guns identified as having been used in crimes?)*
- *What strategies do you employ to monitor how your products are being sold? (e.g., Do you require retailers to certify that they do background checks? Do you require training of retailer staffs? Do you have a process in place to flag unusual size order or identify patterns of disproportionate sales?)*
- *Are you investing in R&D to promote the safety of your products (e.g. effective trigger locking technology)? What is your strategy in this area?*
- *What steps, if any, do you take to support and promote gun safety education at the point of sale?*

Many of the questions in the March 1 Letter call for similar information and would be repetitive if answered separately. Accordingly, our answers below are written so as not to be repetitive.

1. Managing the Risks Associated with Manufacturing Firearms for Civilian Use

Any discussion of our business certainly must start with the Second Amendment, which confers a fundamental right, expressly provided in the Bill of Rights, to keep and bear arms. Further, the Supreme Court of the United States has ruled that the Second Amendment confers an individual right to buy and possess firearms. We firmly believe in our right to manufacture firearms that meet the needs and requirements of those who have the Constitutionally-protected right to own them.

Accordingly, we do not believe that manufacturing civilian firearms has any reputational or financial risks for our company, outside of those risks set out clearly in the Risk Factors in our Annual Report on Form 10-K. The Smith & Wesson brand is an iconic firearms brand that has been in existence since 1852. We believe that our stockholders are well aware of the products we manufacture and fully understand the risks associated with investing in a firearms manufacturer just as investors fully understand the risks associated with investing in other heavily regulated industries, such as chemicals, energy, or pharmaceuticals. We do not believe that our stockholders associate the criminal use of a firearm with the company that manufactures it.

We do believe, however, that there would be far greater reputational and financial risk to our company if we were to manufacture and market products containing features that consumers of our products do not desire, or if we were to take political positions with which consumers of our products do not agree. Like other consumer products businesses, we are in business to manufacture and market the products that consumers of our products desire and use.

That said, three important points are worth noting: (a) we participate actively in one of the most heavily regulated industries in the country, (b) we engage in responsible business practices, and (c) we have legal and compliance teams to help us mitigate the risks associated with our business. Set forth below is a more detailed explanation of these three points:

a. We participate actively in one of the most heavily regulated industries in the country.

There are hundreds of laws and regulations at the federal level regulating, among other things, the manufacture, sale, use, and transfer of firearms. There are hundreds more at the state and local levels including those, for example, that regulate the effort required to pull the trigger, impose performance testing standards, require a loaded chamber indicator or other passive safety features, impose limits on magazine capacity, and restrict certain features. We have processes in place to comply with all of these laws and we will continue to comply with all laws regulating our business, whatever they may require in the future.

In order to conduct our business, we are required to have a Federal Firearms License, or FFL. All FFLs are issued by the federal Bureau of Alcohol, Tobacco, Firearms and Explosives (the “ATF”) in accordance with the Gun Control Act of 1968. There are many ATF rules governing our business. For example, all of our sales must be recorded in a book of “Acquisition & Disposition” (an “A&D book”) and all required information must be maintained in the required format. Our A&D book is a sophisticated, electronic database that is built into our enterprise resource planning (“ERP”) system, so it is tied directly into our manufacturing operations. In addition, we are required to report to the ATF and local law enforcement any firearm believed to be lost or stolen. This obligation applies to firearms in transit, even after we entrust them to a third party shipping company. The ATF has broad authority to ensure our compliance and, for example, can enter our facilities without warning at any time, stop our production and distribution processes, and conduct a floor to ceiling inspection. During an inspection, we are required to show that every firearm we make was properly recorded in our A&D book and we are required to account for every firearm that our database indicates is on our premises.

If we violate any of these rules, we could lose our FFL and would not be able to operate our firearms business. *See enclosed, “Sweat the Details,” published by the National Shooting Sports*

Foundation. This has happened to other FFL holders who have lost their FFL following an ATF inspection. That is why we work continuously to improve our compliance efforts. For example, we have procedures in place to escalate compliance issues with our suppliers, our shipping companies and our distribution partners. In addition, we engage an outside independent consulting firm to perform a “mock ATF inspection” at our manufacturing facilities each year.

b. We engage in responsible business practices. Our commercial distribution channel consists of 15 distributors and 4 large retailers, each holding an FFL, as well as 3 federally licensed “cooperative” buying groups that purchase firearms for a network of larger federally licensed dealers. The distributors in turn sell our products to federally licensed firearm dealers. We only sell our firearms to FFL holders, and without a current FFL, they cannot buy firearms from us.

As the prior paragraph makes clear, we do not sell our firearms directly to consumers. By the time a firearm we make reaches a consumer, it has to pass no fewer than two and most often three federally regulated transactions, including a background check on the consumer through the FBI’s National Instant Criminal Background Check System (“NICS”).

We maintain a written contract with each of our distributors, large retailers, and buying groups. The contracts with our distributors and buying groups allow us to terminate our agreements if the distributor or buying group engages in criminal conduct. These contracts also require the other party to cooperate with us and to support our full compliance with all applicable laws, to employ only employees that are competent to sell firearms, and to adequately train those employees to follow all laws relating to the sale and distribution of firearms, as well as to represent that they are in full compliance with all applicable laws. In addition, our distributors, to whom we sell the majority of our firearms, are bound by contracts that:

- Restrict them from selling firearms to anyone not lawfully authorized to purchase or own firearms.
- Prohibit them from knowingly selling our firearms to anyone who is not complying with the laws and regulations relating to the sale or distribution of firearms.
- Require them to sell all new firearms with the locking device provided by us (see below regarding our firearm safety lock program).
- Prohibit them from selling at gun shows or similar events the firearms we sell to them.
- Prohibit them from drop shipping our firearms to any party other than the party that placed the order with them.
- Prohibit them from knowingly selling our firearms to anyone that has made false or misleading statements with respect to the information required to purchase a firearm.
- Prohibit them from knowingly selling or delivering our firearms where the purchase or possession would be in violation of any law applicable at the place of sale or delivery.

All of our federally licensed strategic retailers are large, sophisticated entities that require us to use their form of agreement. They have their own legal and compliance departments that focus

on compliance with applicable laws, including those that govern the sale of firearms to consumers.

c. We have a dedicated legal team and a robust firearms compliance program. Our legal team consists of a General Counsel and four additional experienced lawyers. Our firearms compliance team consists of a Chief Compliance Officer and six additional experienced compliance professionals. We periodically also engage external compliance consultants to assist us in assessing our compliance processes. All of these individuals are dedicated to ensuring we comply with all applicable firearms laws and to helping mitigate the risks associated with our business.

2. Monitoring the Illegal Use of Our Products

While the vast majority of our products are used lawfully, we are aware that sometimes people engage in horrible, criminal acts with our products. However, calls for us to monitor the illegal use of our firearms are misguided, since doing so would be ineffective in preventing such misuse. In addition, such monitoring by us is not realistic or feasible. As a practical matter, it is no more realistic or feasible for us to monitor whether our legal firearms are used in criminal ways, than it is for a car manufacturer to monitor how often a drunken driver causes a tragic accident with one of their vehicles, or for a mobile phone company to monitor whether its mobile devices are used in terrorist activities. In fact, it likely would be easier for those companies given the limited history of their products. In contrast, we have been in business for 166 years, with our firearms in the stream of commerce since 1852.

We do, however, work closely with the ATF and other law enforcement agencies to help trace firearms used in crimes. On average, we receive over 11,000 requests per year from the ATF to trace firearms allegedly used in crimes. That translates to an average of more than 930 traces per month, more than 30 traces for each day of the year, and that number does not include the requests we receive from other law enforcement agencies investigating and prosecuting gun crimes with which we comply. We respond to each trace request from the ATF within 24 hours as required by law. We advise the ATF whether we made the firearm, when it was made, to whom in our distribution channel we sold the firearm, and when we sold it. We do not have in our records, and therefore we do not provide to the ATF, any information about who may have purchased the firearm at retail or in any other subsequent consumer transaction. We are required to keep sales records dating only back to 1968. However, we maintain robust records as far back as 1905, we have some records as far back as 1896, and we use all of this information as needed to assist the ATF.

We firmly believe that the best way to stop the criminal use of firearms and the violence associated with it, is to enforce the laws that already exist, and to focus stronger efforts on prosecuting those who break them.

3. Promoting the Legal and Safe Use of Firearms

a. We support greater enforcement of current laws. We believe that effective solutions exist to address the use of firearms by disqualified persons such as criminals, those deemed mentally unfit, and children, and to promote the safe use of firearms by lawful owners. First, the laws that already exist need to be enforced. There are hundreds of laws and regulations at the federal level, and study after study shows that most of them go largely unenforced. As stated earlier, we sell our firearms only to FFL holders and there must be a current FFL on file in our ERP system for the intended recipient. If the laws already in place were enforced and, as a result, FFL holders lost their licenses due to their illegal conduct, they would not be able to buy firearms from us or anyone else.

b. We support fixing the National Criminal Instant Background Check System. We support background checks and as an industry, we stand in favor of requiring all federally licensed firearms retailers to conduct an FBI background check when processing any transaction. However, we know that a background check is only as good as the records in the database allow. That is why we support the FixNICS ® campaign, launched by the National Shooting Sports Foundation (www.nssf.gov) (“NSSF”) in 2013 to encourage states to submit all disqualifying criminal and mental health records to the FBI’s National Criminal Instant Background Check System (NICS). The NSSF is the trade association for the firearms industry, and Robert L. Scott, who serves on our Board of Directors, is the Chairman of the NSSF.

Since the inception of FixNICS, 16 states have changed their policies and the submission of disqualifying records increased 170 percent, from 1.7 million in 2013 to nearly 5 million in 2017. The NSSF supports U.S. Sen. John Cornyn’s (R-Texas) S. 2135, the FIX NICS Act of 2017, which would provide financial grants to states to upload records and to compel federal agencies, including the Department of Defense, to submit all disqualifying records. *See enclosed, the NSSF’s Fix NICS Fast Facts, and Fix NICS Report.*

The existing background check system must be fixed before Congress even considers whether to expand background checks. Otherwise, the result will simply be a higher volume of incomplete and inaccurate background checks.

c. We have a history of supporting and promoting the safe use of firearms. We were among the first firearm companies to voluntarily provide a cable-style firearm safety lock included in the box with every firearm we make. We have given away millions of firearm safety locks since beginning this practice many years ago. We call out and prominently display in our owners’ manuals information on responsible firearm ownership, safe handling, and safe storage, and we place a sticker in the box of each firearm we make that refers owners to these provisions in the accompanying owner’s manual. In addition, we are a contributing author to a nationally known firearms safety instruction manual. We also sponsor hunter education and firearms safety programs, train and teach firearms safety both to instructors and to firearm owners, contribute to the Scholastic Shooting Sports Foundation, and sponsor firearms safety and shooting clinics for women.

We currently support, through the NSSF, several highly successful initiatives that promote firearm safety and compliance with firearms laws. These programs are great examples of ways in which the firearms industry partners with law enforcement to achieve tangible success in promoting compliance with firearms laws, the legal sale of firearms, and firearms safety at the federal, state, and local levels. Some examples are:

- Project Childsafe. Project Childsafe is the largest, most comprehensive firearm safety education program in the United States. This project is conducted by the NSSF in partnership with more than 15,000 law enforcement agencies. Project Childsafe promotes firearm safety through the distribution of safety education materials and free firearm safety kits. The kits include a cable-style firearm locking device and a brochure that discusses safe handling and secure storage guidelines for firearms. Since its inception in 1999, Project Childsafe has distributed more than 37 million firearm safety kits to firearm owners. *See enclosed, the NSSF's Project Childsafe 2016 Annual Review.*
- Don't Lie for the Other Guy. "Don't Lie For the Other Guy" is a national campaign launched by the NSSF in 2000, in partnership with the ATF and other federal agencies to prevent prohibited persons from getting their hands on firearms through "straw purchases." A straw purchase occurs when the actual buyer of a firearm is unable to pass the required federal background check, or does not want his or her name associated with the purchase, and has someone else who can pass the required background check purchase the firearm for him or her. Straw purchases are illegal, and Don't Lie For the Other Guy is a program that assists law enforcement in educating firearms retailers to identify and deter straw purchases, and to raise public awareness that straw purchasing is a serious crime. *See enclosed, the NSSF's Don't Lie For the Other Guy Fast Facts.*
- Suicide Prevention. Suicide has accounted for nearly two-thirds of all firearm fatalities annually over the past decade. In recent years, the NSSF has worked with the Veterans Administration, the State of Utah, and mental health agencies to help educate firearm owners and the public on how to keep firearms safely out of reach of those who, during a period of despair, might do themselves harm. In August 2016, the NSSF partnered with the American Foundation for Suicide Prevention ("AFSP") to develop a first-of-its-kind national plan to provide education resources for firearms retailers, shooting ranges, and firearm owners about suicide prevention and firearms. The NSSF and AFSP jointly developed strategies and resources to provide materials about warning signs, prevention, and secure firearms storage options. The NSSF supports AFSP's Project 2025, an initiative to reduce the annual suicide rate by 20 percent by 2025.
- Operation Secure Store. Firearm retailers nationwide have seen an increase in the number of firearms stolen from their businesses. According to the ATF, the number of burglaries of FFLs has increased by more than 71 percent over the past five years, while robberies have increased by 267 percent over the same period. According to the ATF, approximately 8,129 firearms were stolen from FFLs in burglaries and robberies in 2017. Operation Secure Store is a cooperative initiative between the NSSF and the ATF to try

to address this problem, where the NSSF matches ATF monetary rewards for information that leads to the successful arrest of criminals responsible for stealing firearms from an FFL. Additionally, the NSSF is helping to educate FFL holders on steps they can take to reduce the chance firearms will be stolen from them. The NSSF supports the passage of the Federal Firearms Licensee Protection Act of 2017, to strengthen criminal penalties for theft of firearms from an FFL holder and to impose mandatory minimum sentences to help deter criminals and help prevent firearms from falling into the wrong hands. *See enclosed, the NSSF's Operation Secure Store Fast Facts.*

- “Own It? Respect It. Secure It”. “Own It? Respect It. Secure It” is an NSSF initiative developed to give industry members an ongoing platform to promote and encourage firearm safety and the safe storage of firearms. It also serves to enhance and amplify the messages of ongoing safety and education campaigns such as Project Childsafe.
- Firearm Safety Literature and Videos. The NSSF promotes firearms safety through its safety literature and videos which include *Firearms Responsibility in the Home*, *Firearms Safety Depends on You*, and *Firearms Safety in Vehicles*.

4. Safety through Technology

We are not opposed to the development of “authorized user recognition” or so-called “smart gun” technology, nor, do we believe, is the firearms industry. We are opposed, however, to legislation that would *require* the use of such technology, especially when it is not yet proven safe and reliable. The concept has been discussed since the mid-1990s when it was conceived of as a technological response to law enforcement officers having been injured or killed when a criminal wrestled the officer’s firearm away and used it against the officer. *See enclosed, the NSSF's Authorized User Recognition Technology Fast Facts.* According to a 2013 National Institute of Justice review, the technology has not been fully developed and a safe and reliable product incorporating the technology is not available today. Despite considerable research, including at least \$12.6 million in funding by the Justice Department and additional research by firearms manufacturers, the technology remains in the prototype stage.

One of the main concerns for us and other firearm manufacturers and sellers, as well as for legal owners of firearms, is the determination as to what happens when the battery dies or other elements of the technology fail. A person relying on a firearm to protect his or her life, or the life of a loved one, does not have the liberty of rebooting the device, recharging the battery, removing a glove, or drying his or her hands.

The issue is not as simple as it would seem. Does the technology default to preventing the firearm from functioning at a time the owner needs it to save his or her life? Alternatively, does it default to allowing the firearm to be fired, thereby creating the potential situation where a loaded firearm is then accessible to an unauthorized user, such as a child, because the owner relied upon the technology that has failed? Whatever the answers to these questions, they raise product liability concerns for firearm manufacturers like us. Moreover, requiring the use of “smart gun” technology before these and other important questions are resolved may have unintended consequences by

creating a false sense of security and encouraging unsafe storage practices in reliance on unreliable technology.

As far as whether we invest in R&D in this area, we do not. We are a manufacturing company, not a technology company, and we are poorly situated to hire those with the knowledge and expertise to develop such technology and to otherwise compete with technology companies who are far more knowledgeable in this area. In fact, to divert significant resources to these initiatives would be irresponsible when the most recent market research shows there is very little interest or desire among firearm consumers for “smart gun” products, even if they were available.

5. Conclusion

We support a comprehensive discussion regarding preventing violence in our communities and we are committed to reviewing all reasonable proposals with an open mind. However, we also believe that the first course of action must be to enforce existing laws, address the challenges of acute mental illness in our society and the pervasive depiction of violence in movies and video games, and improve the NICS background check system, the very purpose of which is to prevent unauthorized access to firearms by irresponsible persons and those not legally qualified to possess them.

The solution is not to take a politically motivated action that has an adverse impact on our company, our employees, our industry, our shareholders, the economies we support and, most importantly, the rights of the law abiding citizens that buy our products, but results in no increase in public safety. We must collectively have the courage to ensure any actions are guided by data, by facts, and by what will actually make us safer -- not by what is easy, expedient, or reads well in a headline.