

**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 October 31, 2022

Commission File No. 001-39366



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

Delaware
(State or other jurisdiction of
incorporation or organization)

1800 North Route Z, Suite A
Columbia, Missouri
(Address of principal executive offices)

(800) 338-9585
(Registrant's telephone number, including area code)

84-4630928
(I.R.S. Employer
Identification No.)

65202
(Zip 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

The registrant had 13,329,874 shares of common stock, par value \$0.001, outstanding as of November 28, 2022.

AMERICAN OUTDOOR BRANDS, INC.

Quarterly Report on Form 10-Q
For the Three and Six Months Ended October 31, 2022 and 2021

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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:

- our future lease payments;
- our future expected amortization expense;
- our expectation that the unrecognized compensation expense related to unvested RSUs and PSUs will be recognized over a weighted average remaining contractual term of 1.4 years;
- 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 condensed consolidated financial statements may not be indicative of 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;
- the availability of equity or debt financing to us 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 expectation of spending approximately \$7.0 million to \$7.5 million for capital expenditures in fiscal 2023;
- 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, including the establishment of our enterprise resource planning systems, 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;
- our ability to navigate through the business impacts from the coronavirus, or COVID-19 pandemic and related aftermath;
- the possibility that our ability to take advantage of unexpected changes in consumer spending, which is sensitive to economic conditions and other factors;
- 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; to make payments on our \$20.0 million of borrowings under our revolving line of credit and any indebtedness we may incur over time; implement our enterprise resource planning systems; and to repurchase shares of our common stock where we have authorization to do so;
- our estimation that our information technology infrastructure will cost a total of approximately \$9.0 million over a period that spans fiscal 2022 and fiscal 2023;
- our expectation for capital expenditures related to our information technology infrastructure in fiscal 2023 to be approximately \$2.4 million and one-time operating expenses of approximately \$1.7 million;
- our expectation to spend approximately \$500,000 of duplicative expenses related to our information technology infrastructure in fiscal 2023;
- our expectation for inventory levels to decline in the second half of fiscal 2023;
- our plan to implement a new ERP system in fiscal 2023; and
- our plan to fully integrate Grilla Grills into our business in fiscal 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, which may continue to be adversely impacted by the multitude of the effects of COVID-19 and the hostilities in the Ukraine;

- 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, product 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:	
	October 31, 2022 (Unaudited)	April 30, 2022
(In thousands, except par value and share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,355	\$ 19,521
Accounts receivable, net of allowance for credit losses of \$146 on October 31, 2022 and \$129 on April 30, 2022	32,557	28,879
Inventories	111,444	121,683
Prepaid expenses and other current assets	11,292	8,491
Income tax receivable	1,286	1,231
Total current assets	<u>172,934</u>	<u>179,805</u>
Property, plant, and equipment, net	10,168	10,621
Intangible assets, net	58,067	63,194
Right-of-use assets	24,975	23,884
Other assets	328	336
Total assets	<u>\$ 266,472</u>	<u>\$ 277,840</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 8,765	\$ 13,563
Accrued expenses	10,869	7,853
Accrued payroll, incentives, and profit sharing	2,593	3,786
Lease liabilities, current	1,342	1,803
Total current liabilities	<u>23,569</u>	<u>27,005</u>
Notes and loans payable	19,575	24,697
Lease liabilities, net of current portion	24,520	23,076
Other non-current liabilities	31	31
Total liabilities	<u>67,695</u>	<u>74,809</u>
Commitments and contingencies (Note 12)		
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, 14,353,170 shares issued and 13,432,177 shares outstanding on October 31, 2022 and 14,240,290 shares issued and 13,403,326 outstanding on April 30, 2022	14	14
Additional paid in capital	270,220	268,393
Retained deficit	(55,676)	(50,351)
Treasury stock, at cost (920,993 shares on October 31, 2022 and 836,964 shares on April 30, 2022)	(15,781)	(15,025)
Total equity	<u>198,777</u>	<u>203,031</u>
Total liabilities and equity	<u>\$ 266,472</u>	<u>\$ 277,840</u>

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 October 31,		For the Six Months ended October 31,	
	2022	2021	2022	2021
	(In thousands, except per share data)			
Net sales	\$ 54,436	\$ 70,760	\$ 98,112	\$ 131,528
Cost of sales	28,474	37,723	53,111	69,508
Gross profit	<u>25,962</u>	<u>33,037</u>	<u>45,001</u>	<u>62,020</u>
Operating expenses:				
Research and development	1,557	1,457	3,313	2,977
Selling, marketing, and distribution	13,924	15,664	25,704	28,864
General and administrative	10,615	10,615	21,679	20,654
Total operating expenses	<u>26,096</u>	<u>27,736</u>	<u>50,696</u>	<u>52,495</u>
Operating (loss)/income	<u>(134)</u>	<u>5,301</u>	<u>(5,695)</u>	<u>9,525</u>
Other income, net:				
Other income, net	585	619	826	747
Interest expense, net	(242)	(53)	(428)	(99)
Total other income, net	<u>343</u>	<u>566</u>	<u>398</u>	<u>648</u>
Income/(loss) from operations before income taxes	209	5,867	(5,297)	10,173
Income tax (benefit)/expense	<u>(161)</u>	<u>1,284</u>	<u>28</u>	<u>2,133</u>
Net income/(loss)	<u>\$ 370</u>	<u>\$ 4,583</u>	<u>\$ (5,325)</u>	<u>\$ 8,040</u>
Net income/(loss) per share:				
Basic	<u>\$ 0.03</u>	<u>\$ 0.32</u>	<u>\$ (0.40)</u>	<u>\$ 0.57</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.32</u>	<u>\$ (0.40)</u>	<u>\$ 0.56</u>
Weighted average number of common shares outstanding:				
Basic	13,465	14,135	13,454	14,109
Diluted	13,589	14,348	13,454	14,369

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 October 31, 2022 and 2021	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount			Shares	Amount	
Balance at July 31, 2021	14,100	\$ 14	\$ 265,807	\$ 17,986	—	\$ —	\$ 283,807
Net income	—	—	—	4,583	—	—	4,583
Stock-based compensation	—	—	664	—	—	—	664
Shares issued under employee stock purchase plan	35	—	408	—	—	—	408
Issuance of common stock under restricted stock unit awards, net of tax	48	—	(193)	—	—	—	(193)
Balance at October 31, 2021	<u>14,183</u>	<u>\$ 14</u>	<u>\$ 266,686</u>	<u>\$ 22,569</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 289,269</u>
Balance at July 31, 2022	14,292	\$ 14	\$ 268,855	\$ (56,046)	837	\$ (15,025)	\$ 197,798
Net income	—	—	—	370	—	—	370
Stock-based compensation	—	—	1,121	—	—	—	1,121
Shares issued under employee stock purchase plan	39	—	287	—	—	—	287
Issuance of common stock under restricted stock unit awards, net of tax	22	—	(43)	—	—	—	(43)
Repurchase of treasury stock	—	—	—	—	84	(756)	(756)
Balance at October 31, 2022	<u>14,353</u>	<u>\$ 14</u>	<u>\$ 270,220</u>	<u>\$ (55,676)</u>	<u>921</u>	<u>\$ (15,781)</u>	<u>\$ 198,777</u>

For the six months ended October 31, 2022 and 2021	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount			Shares	Amount	
Balance at April 30, 2021	14,059	\$ 14	\$ 265,362	\$ 14,529	—	\$ —	\$ 279,905
Net income	—	—	—	8,040	—	—	8,040
Stock-based compensation	—	—	1,416	—	—	—	1,416
Shares issued under employee stock purchase plan	35	—	408	—	—	—	408
Proceeds from exercise of stock options	3	—	5	—	—	—	5
Issuance of common stock under restricted stock unit awards, net of tax	86	—	(505)	—	—	—	(505)
Balance at October 31, 2021	<u>14,183</u>	<u>\$ 14</u>	<u>\$ 266,686</u>	<u>\$ 22,569</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 289,269</u>
Balance at April 30, 2022	14,240	\$ 14	\$ 268,393	\$ (50,351)	837	\$ (15,025)	\$ 203,031
Net loss	—	—	—	(5,325)	—	—	(5,325)
Stock-based compensation	—	—	1,835	—	—	—	1,835
Shares issued under employee stock purchase plan	39	—	287	—	—	—	287
Issuance of common stock under restricted stock unit awards, net of tax	74	—	(295)	—	—	—	(295)
Repurchase of treasury stock	—	—	—	—	84	(756)	(756)
Balance at October 31, 2022	<u>14,353</u>	<u>\$ 14</u>	<u>\$ 270,220</u>	<u>\$ (55,676)</u>	<u>921</u>	<u>\$ (15,781)</u>	<u>\$ 198,777</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the six Months Ended October 31,	
	2022	2021
	(In thousands)	
Cash flows from operating activities:		
Net (loss)/income	\$ (5,325)	\$ 8,040
Adjustments to reconcile net income to net cash provided by/ (used in) operating activities:		
Depreciation and amortization	8,272	8,386
(Gain)/loss on sale/disposition of assets	(5)	127
Provision for credit losses on accounts receivable	16	38
Deferred income taxes	—	(403)
Stock-based compensation expense	1,835	1,416
Changes in operating assets and liabilities:		
Accounts receivable	(3,694)	(12,195)
Inventories	10,239	(30,677)
Prepaid expenses and other current assets	(2,781)	(4,093)
Income taxes	(55)	28
Accounts payable	(4,058)	3,632
Accrued payroll, incentives, and profit sharing	(1,193)	(3,977)
Right of use assets	868	812
Accrued expenses	3,016	4,637
Other assets	8	23
Lease liabilities	(976)	(891)
Other non-current liabilities	—	(177)
Net cash provided by/(used in) operating activities	<u>6,167</u>	<u>(25,274)</u>
Cash flows from investing activities:		
Payments to acquire patents and software	(2,495)	(1,124)
Payments to acquire property and equipment	(816)	(1,708)
Net cash used in investing activities	<u>(3,311)</u>	<u>(2,832)</u>
Cash flows from financing activities:		
Payments on notes and loans payable	(5,170)	—
Payments to acquire treasury stock	(756)	—
Cash paid for debt issuance costs	(88)	—
Proceeds from exercise of options to acquire common stock, including employee stock purchase plan	287	413
Payment of employee withholding tax related to restricted stock units	(295)	(505)
Net cash used in financing activities	<u>(6,022)</u>	<u>(92)</u>
Net decrease in cash and cash equivalents	(3,166)	(28,198)
Cash and cash equivalents, beginning of period	19,521	60,801
Cash and cash equivalents, end of period	<u>\$ 16,355</u>	<u>\$ 32,603</u>
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$ 393	\$ 76
Income taxes	\$ 86	\$ 2,500

See accompanying notes to unaudited condensed consolidated financial statements.

AMERICAN OUTDOORS BRANDS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Months Ended October 31, 2022 and 2021

(1) Organization:

We (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 our products at our facility in Columbia, Missouri and contract for the manufacture and assembly of most of our products with third-parties located in Asia. We also manufacture some of our electro-optics products at our facilities in Columbia, Missouri and Wilsonville, Oregon.

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, Hooyman, Imperial, LaserLyte, Lockdown, MEAT! Your Maker, Old Timer, Schrade, Tipton, Uncle Henry, ust, and Wheeler, and we license for use in association with certain products we sell additional brands, including M&P, Smith & Wesson, Performance Center by Smith & Wesson, and T/C. 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, camping, and outdoor cooking 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 help consumers aim their firearms more accurately, including situations that require self-defense, and products that help safely secure and store, as well as 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, 2022. 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 October 31, 2022, our condensed consolidated statement of operations for the three and six months ended October 31, 2022 and 2021, and our condensed consolidated statement of cash flows for the six months ended October 31, 2022 and 2021. The consolidated balance sheet as of April 30, 2022 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.

Reclassification

Certain immaterial reclassifications were made to the accompanying condensed consolidated statement of cash flows for the six months ended October 31, 2021 to reclassify payments to acquire property and equipment, to payments to acquire patents and software; however, the total amount of net cash used in investing activities remained unchanged. This reclassification had no impact on the previously reported net income.

AMERICAN OUTDOORS BRANDS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Months Ended October 31, 2022 and 2021

Insurance Reserves

During the three months ended October 31, 2022, we transitioned to self-insured group health insurance programs. Prior to this transition, we had fully guaranteed cost group health insurance programs. We are now self-insured through retentions or deductibles with stop-loss insurance for medical claims that reach a certain limit per claim. We record our liability for estimated incurred losses based on historical claim data in the accompanying consolidated financial statements on an undiscounted basis.

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.

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 October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
e-commerce channels	\$ 22,713	\$ 27,535	\$ (4,822)	-17.5%
Traditional channels	31,723	43,225	(11,502)	-26.6%
Total net sales	\$ 54,436	\$ 70,760	\$ (16,324)	-23.1%

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 primarily operate 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 October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Domestic net sales	\$ 52,106	\$ 67,458	\$ (15,352)	-22.8%
International net sales	2,330	3,302	(972)	-29.4%
Total net sales	\$ 54,436	\$ 70,760	\$ (16,324)	-23.1%

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The following table sets forth certain information regarding trade channel net sales for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
e-commerce channels	\$ 43,257	\$ 44,143	\$ (886)	-2.0 %
Traditional channels	54,855	87,385	(32,530)	-37.2 %
Total net sales	\$ 98,112	\$ 131,528	\$ (33,416)	-25.4 %

The following table sets forth certain information regarding geographic makeup of net sales in the above table for the six months ended October 31, 2022 and 2020 (dollars in thousands):

	2022	2021	\$ Change	% Change
Domestic net sales	\$ 92,382	\$ 123,988	\$ (31,606)	-25.5 %
International net sales	5,730	7,540	(1,810)	-24.0 %
Total net sales	\$ 98,112	\$ 131,528	\$ (33,416)	-25.4 %

Recently Adopted Accounting Standards

In March 2020, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, or ASU 2020-04, to provide temporary optional expedients and exceptions to the contract modifications, hedge relationships, and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04, which was effective upon issuance and may be applied through December 31, 2022, is applicable to all contracts and hedging relationships that reference the London Interbank Offered Rate (LIBOR) or any other reference rate expected to be discontinued. As a result of the amendment to the revolving line of credit agreement in fiscal year 2022, which uses SOFR as an interest rate option instead of LIBOR to calculate the applicable interest rate, see *Note 8 - Debt*, the new guidance will not have a material impact on our condensed consolidated financial statements and related disclosures.

In December 2019, FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, or ASU 2019-12, an amendment of the FASB Accounting Standards Codification. ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions for intraperiod tax allocations and deferred tax liabilities for equity method investments and adds guidance regarding whether a step-up in tax basis of goodwill relates to a business combination or a separate transaction. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. We adopted ASU 2019-12 on May 1, 2021, and the cumulative effect of the adoption was not material to our condensed consolidated financial statements and related disclosures.

(3) Acquisitions:

Grilla Grills Acquisition

In fiscal 2022, we acquired substantially all of the assets of the Grilla Grills business of Fahrenheit Technologies, Inc., or FTI, for \$27 million, financed using a combination of existing cash balances and cash from a \$25 million draw on our revolving line of credit. Based in Michigan, Grilla Grills is a provider of high-quality, barbecue grills; Wi-Fi-enabled wood pellet grills; smokers; accessories; and modular outdoor kitchens.

We accounted for the acquisition as a business combination using the acquisition method of accounting. The purchase price allocation below was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the consideration transferred over the estimated fair value of the net assets received has been recorded as goodwill. The factors that contributed to the recognition of goodwill primarily relate to acquisition-driven anticipated cost savings and synergies. Assembled workforce is not recognized separate and apart from goodwill as it is neither separable nor contractual in nature. During the year ended April 30, 2022, we increased goodwill by \$3.5 million as a result of valuations related to the Grilla Grills acquisition, which was subsequently written off as we recorded a full impairment of our goodwill on April 30, 2022. The goodwill related to the Grilla Grills acquisition is deductible for tax purposes. The valuation of the assets acquired, and liabilities assumed in the Grilla Grills acquisition is complete.

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The following table summarizes the preliminary allocation of the purchase price for the Grilla Grills acquisition (in thousands):

	Grilla Grills Acquisition (as reported)
Inventories	\$ 5,956
Property, plant, and equipment	105
Intangibles	18,495
Goodwill	3,534
Total assets acquired	28,090
Accounts payable	894
Accrued expenses	46
Accrued warranty	150
Total liabilities assumed	1,090
	<u>\$ 27,000</u>

We recorded \$646,000 of acquisition-related costs, including \$47,000 of acquisition-related costs incurred in the six months ended October 31, 2022, which are recorded in general and administrative expenses. The Grilla Grills acquisition generated \$2.6 million and \$7.8 million of net sales during the three and six months ended October 31, 2022, respectively.

We determined the fair market value of the intangible assets acquired in accordance with ASC 805 - *Business Combinations* and ASC 820 - *Fair Value Measurement* and assigned a fair market value of \$18.5 million to tradenames at the acquisition date. We amortize assets in proportion to expected yearly revenue generated from the intangibles that we acquire. The weighted average life of tradenames acquired is 6.5 years.

Additionally, the following table reflects the unaudited pro forma results of operations assuming that the Grilla Grills acquisition had occurred on May 1, 2021 (in thousands, except per share data):

	For the Three Months ended October 31, 2021	For the Six Months ended October 31, 2021
Net sales	\$ 73,740	\$ 138,932
Income from operations	5,421	9,660
Net income per share - diluted	0.33	0.57

The unaudited pro forma income from operations for the three and six months ended October 31, 2021 has been adjusted to reflect increased cost of goods sold from the fair value step-up in inventory, which is expensed over the first inventory cycle, and the amortization of intangibles as if the Grilla Grills acquisition had occurred on May 1, 2021. The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the actual results that would have been achieved had the Grilla Grills acquisition occurred as of May 1, 2021 or the results that may be achieved in future periods.

(4) 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.

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The amounts of assets and liabilities related to our operating leases as of October 31, 2022 are as follows (in thousands):

	October 31, 2022	April 30, 2022
Operating Leases		
Right-of-use assets	\$ 29,422	\$ 27,475
Accumulated amortization	(4,447)	(3,591)
Right-of-use assets, net	\$ 24,975	\$ 23,884
Lease liabilities, current portion	\$ 1,342	\$ 1,803
Lease liabilities, net of current portion	24,520	23,076
Total operating lease liabilities	\$ 25,862	\$ 24,879

For the three and six months ended October 31, 2022, we recorded \$1.1 million and \$2.1 million, respectively, of operating lease costs, of which \$41,000 and \$88,000, respectively, were short-term operating lease costs. For the three and six months ended October 31, 2021, we recorded \$920,000 and \$1.8 million, respectively, of operating lease costs, of which \$49,000 and \$100,000, respectively, were short-term operating lease costs. As of October 31, 2022, our weighted average lease term and weighted average discount rate for our operating leases were 15.9 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.

During the six months ended October 31, 2022, we amended the existing operating lease for our corporate office and warehouse facility in Columbia, Missouri to expand our usable square footage in our warehouse. The term of the lease remains unchanged, through fiscal 2039. During the six months ended October 31, 2022, we recorded a right-of-use asset and lease liability of \$1.9 million.

Future lease payments for all our operating leases for the remainder of fiscal 2023 and for succeeding fiscal years, as of October 31, 2022, are as follows (in thousands):

	Operating
2023	\$ 1,566
2024	2,221
2025	2,228
2026	2,177
2027	2,207
2028	2,238
Thereafter	26,426
Total future lease payments	39,063
Less amounts representing interest	(13,201)
Present value of lease payments	25,862
Less current maturities of lease liabilities	(1,342)
Long-term maturities of lease liabilities	\$ 24,520

The cash paid for amounts included in the measurement of the liabilities and the operating cash flows was \$976,000 and \$891,000 for the six months ended October 31, 2022 and 2021, respectively.

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(5) Intangible Assets, net:

The following table summarizes intangible assets as of October 31, 2022 and April 30, 2022 (in thousands):

	October 31, 2022			April 30, 2022		
	Gross Carrying	Accumulated	Net Carrying	Gross Carrying	Accumulated	Net Carrying
	Amount	Amortization	Amount	Amount	Amortization	Amount
Customer relationships	\$ 89,980	\$ (70,995)	\$ 18,985	\$ 89,980	\$ (67,955)	\$ 22,025
Developed software and technology	30,383	(20,611)	9,772	25,812	(19,395)	6,417
Patents, trademarks, and trade names	68,771	(41,536)	27,235	68,663	(39,030)	29,633
	189,13			184,45		
	4	(133,142)	55,992	5	(126,380)	58,075
Patents and software in development	1,645	—	1,645	4,689	—	4,689
	190,77			189,14		
Total definite-lived intangible assets	9	(133,142)	57,637	4	(126,380)	62,764
Indefinite-lived intangible assets	430	—	430	430	—	430
	191,20			189,57		
Total intangible assets	\$ 9	\$ (133,142)	\$ 58,067	\$ 4	\$ (126,380)	\$ 63,194

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, five years for developed software and technology, and six years for patents, trademarks, and trade names. Amortization expense amounted to \$3.3 million and \$3.5 million for the three months ended October 31, 2022 and 2021, respectively. Amortization expenses amounted to \$6.8 million and \$7.0 million for the six months ended October 31, 2022 and 2021, respectively.

Future expected amortization expense for the remainder of fiscal 2023 and for succeeding fiscal years, as of October 31, 2022, are as follows (in thousands):

Fiscal	Amount
2023	\$ 6,755
2024	12,968
2025	9,252
2026	7,961
2027	5,636
2028	4,352
Thereafter	9,068
Total	\$ 55,992

(6) 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).

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Our cash and cash equivalents, which are measured at fair value on a recurring basis, totaled \$16.4 million as of October 31, 2022 and \$19.5 million as of April 30, 2022. 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).

The carrying value of our revolving line of credit approximated the fair value, as of October 31, 2022, in considering Level 2 inputs within the hierarchy.

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 October 31, 2022.

(7) Inventories:

The following table sets forth a summary of inventories, stated at lower of cost or net realizable value, as of October 31, 2022 and April 30, 2022 (in thousands):

	October 31, 2022	April 30, 2022
Finished goods	\$ 101,724	\$ 110,650
Finished parts	3,552	4,353
Work in process	81	194
Raw material	6,087	6,486
Total inventories	\$ 111,444	\$ 121,683

(8) 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 October 31, 2022, we had \$20.0 million of borrowings outstanding on the revolving line of credit, which bore interest at 4.27%, equal to SOFR plus the applicable margin. Outstanding borrowings on the revolving line of credit are classified as non-current in the consolidated financial statements, maturing in March 2027. The proceeds from the borrowings on our revolving line of credit were used to purchase the Grilla Grills branded products from FTI in fiscal year 2022.

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(9) 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, block purchases, or in privately negotiated transactions, executable through September 29, 2023. During the three and six months ended October 31, 2022, we repurchased 84,029 shares of our common stock for \$756,000 under this authorization, 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. There were no shares excluded from the computation of diluted earnings per share for the three months ended October 31, 2022 and 2021, respectively, and for the six months ended October 31, 2021. Due to the loss from operations for the six months ended October 31, 2022, there are no common shares added to calculate dilutive earnings per share because the effect would be antidilutive.

The following table provides a reconciliation of the net income amounts and weighted average number of common and common equivalent shares used to determine basic and diluted earnings per share for the three months ended October 31, 2022 and 2021 (in thousands, except per share data):

	For the Three Months Ended October 31,					
	2022			2021		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings	\$ 370	13,465	\$ 0.03	\$ 4,583	14,135	\$ 0.32
Effect of dilutive stock awards	—	124	—	—	213	—
		13,589			14,348	
Diluted earnings	\$ 370	9	\$ 0.03	\$ 4,583	8	\$ 0.32

The following table provides a reconciliation of the net income amounts and weighted average number of common and common equivalent shares used to determine basic and diluted earnings per share for the six months ended October 31, 2022 and 2021 (in thousands, except per share data):

	For the Six Months Ended October 31,					
	2022			2021		
	Net Loss	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic (loss)/earnings	\$ (5,325)	13,454	\$ (0.40)	\$ 8,040	14,109	\$ 0.57
Effect of dilutive stock awards	—	—	—	—	260	(0.01)
	(5,325)	13,454	(0.40)	8,040	14,369	0.56
Diluted (loss)/earnings	\$ (5,325)	4	\$ (0.40)	\$ 8,040	9	\$ 0.56

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. Our 2020 Incentive Compensation Plan authorizes the issuance of awards covering up to 1,397,510 shares of our common stock. The plan permits the grant of options to acquire common stock, restricted stock awards, restricted stock units, or RSUs, stock appreciation rights, bonus stock and awards in lieu of obligations, performance awards, and dividend equivalents. Our Board of Directors, or a committee established by our Board of Directors, administers the plan, selects recipients to whom awards are granted, and determines the grants to be awarded. Stock options granted under the plan are exercisable at a price determined by our Board of Directors or a committee thereof at the time of grant, but in no event, less than fair market value of our common stock on the date granted. Grants of options may be made to employees and directors without regard to any performance measures. All options issued pursuant to the plan are generally nontransferable and subject to forfeiture.

Unless terminated earlier by our Board of Directors, our 2020 Incentive Compensation Plan will terminate at the earliest of (1) the tenth anniversary of the effective date of our 2020 Incentive Compensation Plan, or (2) such time as no shares of common stock remain available for issuance under the plan and we have no further rights or obligations with respect to outstanding awards under the plan. The date of grant of an award is deemed to be the date upon which our Board of Directors or a committee thereof authorizes the granting of such award.

Except in specific circumstances, grants generally vest over a period of three or four years and grants of stock options are exercisable for a period of 10 years. Our 2020 Incentive Compensation Plan also permits the grant of awards to non-employees.

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We recognized \$1.1 million and \$1.8 million of stock-based compensation expense for the three and six months ended October 31, 2022, respectively. We recognized \$664,000 and \$1.4 million of stock-based compensation expenses for the three and six months ended October 31, 2021, respectively.

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

We grant 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 four years with one-fourth of the units vesting on each anniversary of the grant date. 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 and Six Months Ended October 31,	
	2022	2021
Grant date fair market value		
American Outdoor Brands, Inc.	\$ 12.70	\$ 26.44
Russell 2000 Index	\$ 1,882.91	\$ 2,277.45
Volatility (a)		
American Outdoor Brands, Inc.	49.04 %	47.78 %
Russell 2000 Index	31.75 %	30.69 %
Correlation coefficient (b)	0.50	0.46
Risk-free interest rate (c)	2.91 %	0.33 %
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 six months ended October 31, 2022, we granted an aggregate of 52,277 PSUs to our executive officers. We also granted 263,898 RSUs during the six months ended October 31, 2022, including 52,277 RSUs to executive officers and 211,621 RSUs to non-executive officer employees and directors under our 2020 Incentive Compensation Plan. In addition, in connection with a 2019 grant, we vested 7,200 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 six months ended October 31, 2022, we cancelled 3,456 RSUs as a result of the service condition not being met. In connection with the vesting of RSUs, during the six months ended October 31, 2022, we delivered common stock to our employees, including our executive officers, and directors with a total market value of \$1.1 million.

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During the six months ended October 31, 2021, we granted an aggregate of 26,809 market-condition PSUs to our executive officers. We also granted 73,248 service-based RSUs during the six months ended October 31, 2021, including 26,809 RSUs to executive officers and 46,439 to non-executive officer employees under our 2020 Incentive Compensation Plan. In addition, in connection with a 2018 grant, we vested 10,800 market-condition PSUs (i.e., the target amount granted), which achieved 200% of the maximum aggregate award possible, resulting in awards totaling 21,600 shares to certain of our executive officers and employees of our former parent. During the six months ended October 31, 2021, we cancelled 21,363 service-based RSUs as a result of the service condition not being met. In connection with the vesting of RSUs, during the six months ended October 31, 2021, we delivered common stock to our employees, including our executive officers and directors with a total market value of \$3.0 million.

A summary of activity for unvested RSUs and PSUs under our 2020 Incentive Compensation Plan for the six months ended October 31, 2022 and 2021 is as follows:

	For the Six Months Ended October 31,			
	2022		2021	
	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	349,774	\$ 15.93	427,519	\$ 11.75
Awarded	323,375	10.87	110,857	27.22
Vested	(101,061)	14.26	(106,724)	11.43
Forfeited	(3,456)	18.83	(35,634)	14.43
RSUs and PSUs outstanding, end of period	<u>568,632</u>	<u>\$ 13.34</u>	<u>396,018</u>	<u>\$ 15.92</u>

As of October 31, 2022, there was \$3.4 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 1.4 years.

We have an employee stock purchase plan, or ESPP, which authorizes the sale of up to 419,253 shares of our common stock to employees. All options and rights to participate in our ESPP are nontransferable and subject to forfeiture in accordance with our ESPP guidelines. Our current ESPP will be implemented in a series of successive offering periods, each with a maximum duration of 12 months. If the fair market value per share of our common stock on any purchase date is less than the fair market value per share on the start date of a 12-month offering period, then that offering period will automatically terminate and a new 12-month offering period will begin on the next business day. Each offering period will begin on April 1 or October 1, as applicable, immediately following the end of the previous offering period. Payroll deductions will be on an after-tax basis, in an amount of not less than 1% and not more than 20% (or such greater percentage as the committee appointed to administer our ESPP may establish from time to time before the first day of an offering period) of a participant's compensation on each payroll date. The option exercise price per share will equal 85% of the lower of the fair market value on the first day of the offering period or the fair market value on the exercise date. The maximum number of shares that a participant may purchase during any purchase period is the greater of 2,500 shares, or a total of \$25,000 in shares, based on the fair market value on the first day of the offering period. Our ESPP will remain in effect until the earliest of (a) the exercise date that participants become entitled to purchase a number of shares greater than the number of reserved shares available for purchase under our ESPP, (b) such date as is determined by our Board of Directors in its discretion, or (c) the tenth anniversary of the effective date. In the event of certain corporate transactions, each option outstanding under our ESPP will be assumed or an equivalent option will be substituted by the successor corporation or a parent or subsidiary of such successor corporation. During the six months ended October 31, 2022, 38,560 shares were purchased by our employees under our ESPP.

We measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. We amortize the fair value of the award over the vesting period of the option. Under ESPP, fair value is determined at the beginning of the purchase period and amortized over the term of each exercise period.

The following assumptions were used in valuing ESPP purchases under our ESPP during the six months ended October 31, 2022 and 2021:

	For the Three and Six Months Ended October 31,	
	2022	2021
Risk-free interest rate	3.97% - 4.01%	0.05% - 0.09%
Expected term	6 months - 12 months	6 months - 12 months
Expected volatility	51.9% - 58.4%	54.7% - 56.7%
Dividend yield	0%	0%

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We estimate expected volatility using historical volatility for the expected term. The fair value of each stock option or ESPP purchase was estimated on the date of the grant using Black-Scholes option pricing model (using the risk-free interest rate, expected term, expected volatility, and dividend yield variables, as noted in the above table).

(10) Accrued Expenses:

The following table sets forth other accrued expenses as of October 31, 2022 and April 30, 2022 (in thousands):

	October 31, 2022	April 30, 2022
Accrued sales allowances	\$ 3,753	\$ 2,392
Accrued freight	2,018	1,253
Accrued commissions	1,250	1,175
Accrued employee benefits	980	312
Accrued warranty	964	786
Accrued professional fees	891	951
Accrued taxes other than income	754	718
Accrued other	259	266
Total accrued expenses	\$ 10,869	\$ 7,853

(11) 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 benefit of \$161,000 and income tax expense of \$1.3 million for the three months ended October 31, 2022 and 2021, respectively. The effective tax rate for the three months ended October 31, 2022 and 2021 was (77.0%) and 21.9%, respectively. Income tax expense for the three months ended October 31, 2022 included a discrete tax expense of \$40,000 associated with stock-based compensation. Income tax expense for the three months ended October 31, 2021 included a discrete tax benefit of \$171,000 associated with stock-based compensation. We recorded income tax expense of \$28,000 and \$2.1 million for the six months ended October 31, 2022 and 2021, respectively. The effective tax rate for the six months ended October 31, 2022 and 2021 was (0.5%) and 21.0%, respectively. Income tax expense for the six months ended October 31, 2021 included a discrete tax benefit of \$361,000 associated with stock-based compensation, respectively.

(12) 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 and six months ended October 31, 2022 and 2021, respectively, 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.

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 sold 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.

(13) 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, which we develop, source, market, and distribute from our facility in Columbia, Missouri, and our electro-optics products, which we assemble in our Columbia, Missouri and Wilsonville, Oregon facilities. 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 and six months ended October 31, 2022 and 2021 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, 2022. 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.

In March 2022, we acquired substantially all of the assets of Grilla Grills (including its branded products) from Fahrenheit Technologies, Inc., or FTI, for a purchase price of \$27 million, subject to certain adjustments. Grilla Grills is a provider of high-quality, barbecue grills; Wi-Fi-enabled wood pellet grills; smokers; accessories; and modular outdoor kitchens. We are in the process of integrating Grilla Grills into our business as we operate out of Holland, Michigan under a transition services agreement with FTI. We plan to fully integrate Grilla Grills into our business in fiscal 2023. Results of operations for the three and six months ended October 31, 2022 include activity for the period subsequent to the acquisition date of Grilla Grills.

Second Quarter Fiscal 2023 Highlights

Our operating results for the three months ended October 31, 2022 included the following:

- Net sales were \$54.4 million, a decrease of \$16.3 million, or 23.1%, from the comparable quarter last year.
- Gross margin was 47.7%, an increase of 100 basis points over the comparable quarter last year.
- Net income was \$370,000, or \$0.03 per diluted share, compared with net income of \$4.6 million, or \$0.32 per diluted share, for the comparable quarter last year.
- Non-GAAP Adjusted EBITDAS was \$6.4 million for the three months ended October 31, 2022 compared with \$11.7 million for the three months ended October 31, 2021. See non-GAAP financial measure disclosures below for our reconciliation of non-GAAP Adjusted EBITDAS.

Our operating results for the six months ended October 31, 2022 included the following:

- Net sales were \$98.1 million, a decrease of \$33.4 million, or 25.4%, from the prior year comparable period.
- Gross margin was 45.9%, an decrease of 130 basis points from the prior year comparable period.
- Net loss was \$5.3 million, or \$0.40 per diluted share, compared with net income of \$8.0 million, or \$0.56 per diluted share, for the prior year comparable period.
- Non-GAAP Adjusted EBITDAS was \$7.8 million for the six months ended October 31, 2022 compared with \$21.3 million for the six months ended October 31, 2021.

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 October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Net sales	\$ 54,436	\$ 70,760	\$ (16,324)	-23.1%
Cost of sales	28,474	37,723	(9,249)	-24.5%
Gross profit	\$ 25,962	\$ 33,037	\$ (7,075)	-21.4%
% of net sales (gross margin)	47.7%	46.7%		

The following table sets forth certain information regarding trade channel net sales for the three months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
e-commerce channels	\$ 22,713	\$ 27,535	\$ (4,822)	-17.5%
Traditional channels	31,723	43,225	(11,502)	-26.6%
Total net sales	\$ 54,436	\$ 70,760	\$ (16,324)	-23.1%

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 October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Domestic net sales	\$ 52,106	\$ 67,458	\$ (15,352)	-22.8%
International net sales	2,330	3,302	(972)	-29.4%
Total net sales	\$ 54,436	\$ 70,760	\$ (16,324)	-23.1%

For the three months ended October 31, 2022, total net sales decreased \$16.3 million, or 23.1%, from the comparable quarter last year.

Net sales in our e-commerce channel decreased \$4.8 million, or 17.5%, from the comparable quarter last year, primarily because of lower net sales to the world's largest e-commerce retailer because of reduced demand primarily in our shooting sports category as well as efforts by our online retailers to reduce their overall inventory. The lower net sales to our online retailers were partially offset by a 119.1% increase in our direct-to-consumer net sales over the comparable quarter last year, primarily in our outdoor lifestyle products. We believe the increase in our direct-to-consumer net sales represents the demand for our products in the market that are not typically hindered by retailer inventory management. Our brands that are only sold on our direct-to-consumer websites represented \$5.0 million, or 22.0%, of total e-commerce channel net sales for the three months ended October 31, 2022, which includes net sales from a business acquisition completed in the prior fiscal year.

Net sales in our traditional channels decreased \$11.5 million, or 26.6%, from the comparable quarter last year, primarily because of lower net sales for the majority of our products as a result of decreased orders from retailers, which we believe was caused by a combination of lower foot traffic because of less discretionary consumer spending and retailers' efforts to reduce their overall inventory levels. In addition, lower net sales of our shooting sports products to our OEM customers resulted in lower traditional channel net sales from the comparable quarter last year.

New products, which we define as any SKU introduced over the prior two fiscal years, represented 30.0% of net sales for the three months ended October 31, 2022.

Gross margin for the three months ended October 31, 2022 increased 100 basis points over the comparable quarter last year, primarily because of lower freight and tariff expenses from the planned reduction in inventory purchases and favorable valuation provisions on inventory, partially offset by product and customer mix and increased promotional product discounts that are consistent with pre-pandemic promotional discount levels.

The following table sets forth certain information regarding consolidated net sales and gross profit for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Net sales	\$ 98,112	\$ 131,528	\$ (33,416)	-25.4%
Cost of sales	53,111	69,508	(16,397)	-23.6%
Gross profit	\$ 45,001	\$ 62,020	\$ (17,019)	-27.4%
% of net sales (gross margin)	45.9%	47.2%		

The following table sets forth certain information regarding trade channel net sales for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
e-commerce channels	\$ 43,257	\$ 44,143	\$ (886)	-2.0%
Traditional channels	54,855	87,385	(32,530)	-37.2%
Total net sales	\$ 98,112	\$ 131,528	\$ (33,416)	-25.4%

The following table sets forth certain information regarding geographic makeup of net sales included in the above table for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Domestic net sales	\$ 92,382	\$ 123,988	\$ (31,606)	-25.5%
International net sales	5,730	7,540	(1,810)	-24.0%
Total net sales	\$ 98,112	\$ 131,528	\$ (33,416)	-25.4%

For the six months ended October 31, 2022, total net sales decreased \$33.4 million, or 25.4%, from the prior year comparable period.

Net sales in our e-commerce channel decreased \$886,000, or 2.0%, from the prior year comparable period, primarily because of lower net sales in our shooting sports category, almost entirely offset by increased net sales in our outdoor lifestyle category that included a 172.3% increase in direct-to-consumer net sales over the prior year comparable period. Our brands that are only sold on our direct-to-consumer websites represented \$11.8 million, or 27.3%, of total e-commerce channel net sales for the six months ended October 31, 2022, which included net sales from a business acquisition completed in the prior fiscal year.

Net sales in our traditional channels decreased \$32.5 million, or 37.2%, from the prior year comparable period, primarily because of lower net sales for the majority of our products as a result of decreased orders from retailers, which we believe was caused by a combination of lower foot traffic in stores mentioned above and retailers' efforts to reduce their overall inventory levels. In addition, traditional channel net sales were impacted by lower net sales of our shooting sports products to our OEM customers. We believe the decrease in traditional channel net sales was a result of a build in traditional channel inventories of our products during the first fiscal quarter last year as certain customers accelerated their purchases to offset the possibility of delays caused by global supply chain disruptions.

New products, which we define as any SKU introduced over the prior two fiscal years, represented 29.7% of net sales for the six months ended October 31, 2022.

Gross margin for the six months ended October 31, 2022 decreased 130 basis points from the prior year comparable period primarily because of lower sales volumes, product and customer mix, and increased promotional product discounts that are consistent with pre-pandemic promotional discount levels, partially offset by favorable impacts of price increases and tariff drawbacks.

Operating Expenses

The following table sets forth certain information regarding operating expenses for the three months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Research and development	\$ 1,557	\$ 1,457	\$ 100	6.9%
Selling, marketing, and distribution	13,924	15,664	(1,740)	-11.1%
General and administrative	10,615	10,615	-	0.0%
Total operating expenses	\$ 26,096	\$ 27,736	\$ (1,640)	-5.9%
% of net sales	47.9%	39.2%		

Research and development expenses were relatively flat as compared to the comparable quarter last year. Selling, marketing, and distribution expenses decreased \$1.7 million from the comparable quarter last year because of lower sales volume-related accruals, lower advertising expenses, and lower compensation-related expenses. General and administrative expenses were flat to the comparable quarter last year.

The following table sets forth certain information regarding operating expenses for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Research and development	\$ 3,313	\$ 2,977	\$ 336	11.3%
Selling, marketing, and distribution	25,704	28,864	(3,160)	-10.9%
General and administrative	21,679	20,654	1,025	5.0%
Total operating expenses	\$ 50,696	\$ 52,495	\$ (1,799)	-3.4%
% of net sales	51.7%	39.9%		

Research and development expenses were relatively flat as compared to the prior year comparable period. Selling, marketing, and distribution expenses decreased \$3.2 million from the prior year comparable period because of lower sales volume-related accruals and lower advertising expenses. General and administrative expenses increased \$1.0 million over the prior year comparable period, primarily as a result of \$1.2 million of legal and advisory fees associated with the completed cooperation agreement with a stockholder and \$585,000 of increased standalone expenses, such as our information technology infrastructure costs and subscription and software costs, partially offset by lower compensation-related expenses.

Operating Income

The following table sets forth certain information regarding operating income for the three months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Operating (loss)/income	\$ (134)	\$ 5,301	\$ (5,435)	-102.5%
% of net sales (operating margin)	-0.2%	7.5%		

Operating loss for the three months ended October 31, 2022 was \$134,000, a decrease of \$5.4 million from \$5.3 million operating income for the three months ended October 31, 2021, primarily because of lower sales and gross profit as described above.

The following table sets forth certain information regarding operating income for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Operating (loss)/income	\$ (5,695)	\$ 9,525	\$ (15,220)	-159.8%
% of net sales (operating margin)	-5.8%	7.2%		

Operating loss for the six months ended October 31, 2022 was \$5.7 million, a decrease of \$15.2 million from \$9.5 million operating income for the six months ended October 31, 2021, primarily because of lower sales and gross profit as described above.

Income Taxes

The following table sets forth certain information regarding income tax expense for the three months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Income tax (benefit)/expense	\$ (161)	\$ 1,284	\$ (1,445)	-112.5%
% of income from operations (effective tax rate)	-77.0%	21.9%		-98.9%

We recorded income tax benefit of \$161,000 for the three months ended October 31, 2022, compared with income tax expense of \$1.3 million for the prior year comparable quarter because of lower operating income. The income tax benefit recorded during the three months ended October 31, 2022 was primarily due to a full valuation allowance recorded against our deferred tax assets.

The following table sets forth certain information regarding income tax expense for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Income tax expense	\$ 28	\$ 2,133	\$ (2,105)	-98.7%
% of income from operations (effective tax rate)	-0.5%	21.0%		-21.5%

We recorded income tax expense of \$28,000 for the six months ended October 31, 2022, compared with income tax expense of \$2.1 million for the prior year comparable period because of lower operating income. The income tax expense recorded during the six months ended October 31, 2022 was primarily due to a full valuation allowance recorded against our deferred tax assets as mentioned above.

Net (Loss)/Income

The following table sets forth certain information regarding net (loss)/income and the related per share data for the three months ended October 31, 2022 and 2021 (dollars in thousands, except per share data):

	2022	2021	\$ Change	% Change
Net income	\$ 370	\$ 4,583	\$ (4,213)	-91.9%
Net income per share				
Basic	\$ 0.03	\$ 0.32	\$ (0.29)	-90.6%
Diluted	\$ 0.03	\$ 0.32	\$ (0.29)	-90.6%

Net income was \$329,000, or \$0.02 per diluted share, for the three months ended October 31, 2022 compared with net income of \$4.6 million, or \$0.32 per share, for the comparable quarter last year, primarily because of lower sales volume and gross profit.

	2022	2021	\$ Change	% Change
Net (loss)/income	\$ (5,325)	\$ 8,040	\$ (13,365)	-166.2%
Net (loss)/income per share				
Basic	\$ (0.40)	\$ 0.57	\$ (0.97)	-170.2%
Diluted	\$ (0.40)	\$ 0.56	\$ (0.96)	-171.4%

Net loss was \$5.5 million, or \$0.41 per diluted share, for the six months ended October 31, 2022 compared with net income of \$8.0 million, or \$0.56 per share, for the comparable period last year, primarily because of lower sales volume and 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 and six months ended October 31, 2022 and 2021, respectively (dollars in thousands):

	For the Three Months Ended October 31,		For the Years Ended October 31,	
	2022	2021	2022	2021
				(Unaudited)
GAAP net income/(loss)	\$ 370	\$ 4,583	\$ (5,325)	\$ 8,040
Interest expense	242	53	428	99
Income tax (benefit)/expense	(161)	1,284	28	2,133
Depreciation and amortization	4,110	4,207	8,272	8,386
Stock compensation	1,121	664	1,835	1,416
Technology implementation	273	887	1,042	1,159
Acquisition costs	—	—	47	—
Facility consolidation costs	292	—	292	—
Stockholder cooperation agreement costs	167	—	1,177	—
Other	—	18	—	18
Non-GAAP Adjusted EBITDAS	\$ 6,414	\$ 11,696	\$ 7,796	\$ 21,251

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; hire additional employees; fund growth strategies, including any potential acquisitions; to make payments on our \$20.0 million of borrowings under our revolving line of credit, of which, \$10.0 million was paid in November 2022, and any additional indebtedness we may incur over time; implement our enterprise resource planning systems; and to repurchase shares of our common stock if we are authorized to do so. We estimate that our information technology infrastructure will cost a total of approximately \$9.0 million over a period that spans fiscal 2022 and fiscal 2023. In fiscal 2022, we recorded capital expenditures of \$3.9 million and one-time operating expenses of \$1.0 million. In fiscal 2023, we expect capital expenditures of approximately \$2.4 million and one-time operating expenses of approximately \$1.7 million. In addition, we recorded \$948,000 of duplicative expenses in fiscal 2022 and we expect to spend approximately \$500,000 of duplicative expenses in fiscal 2023, as we operated both our existing and our new information technology and enterprise resource planning platforms in parallel during the system changeover period. The one-time operating expenses and duplicative expenses will be recorded in general and administrative expenses on our condensed consolidated statement of operations.

The following table sets forth certain cash flow information for the six months ended October 31, 2022 and 2021 (dollars in thousands):

	2022	2021	\$ Change	% Change
Operating activities	\$ 6,167	\$ (25,274)	\$ 31,441	-124.4%
Investing activities	(3,311)	(2,832)	(479)	16.9%
Financing activities	(6,022)	(92)	(5,930)	6445.7%
Total cash flow	<u>\$ (3,166)</u>	<u>\$ (28,198)</u>	<u>\$ 25,032</u>	<u>-88.8%</u>

Operating Activities

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

Cash generated by operating activities was \$6.2 million for the six months ended October 31, 2022 compared with cash used in operating activities of \$25.3 million for the six months ended October 31, 2021. Cash generated by operating activities for the six months ended October 31, 2022 was primarily impacted by \$10.2 million of reduced inventory as a result of a planned reduction in purchases during the period, offset by additional purchases for new product introductions that will launch later in the year. In addition, we recorded \$3.0 million of increased accrued expenses which was primarily because of timing of payments for sales volume accruals. The cash generated during the six months ended October 31, 2022 was partially offset by \$3.7 million of increased accounts receivable from timing of payments from our customers as well as \$4.1 million of reduced accounts payable because of the planned reduction in purchases mentioned above.

We expect our inventory levels to decline in the second half of fiscal 2023 as we reduce our planned inventory purchases, other than purchases for new product introductions, and a return to typical seasonality trends for our business.

Investing Activities

Cash used in investing activities was \$479,000 higher during the six months ended October 31, 2022 as compared with the prior year comparable period primarily from increased spending on the development and implementation of our independent information technology infrastructure. We expect to spend approximately \$7.0 million to \$7.5 million of capital expenditures in fiscal 2023, an increase of \$400,000 to \$900,000 over fiscal 2022, which includes the capital expenditures for the development and implementation of our independent information technology infrastructure noted above. We recorded spending of \$1.7 million of capital expenditures during the six months ended October 31, 2022 related to our development and implementation of our independent information technology infrastructure.

Financing Activities

Cash used in financing activities was \$6.0 million for the six months ended October 31, 2022, primarily from \$5.2 million of payments on our revolving line of credit and \$756,000 of payments to repurchase our common stock under an authorized stock repurchase program.

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, the capital needed to operate as an independent publicly traded company, including the establishment of our enterprise resource planning systems, any acquisitions or strategic investments that we may determine to make, our ability to navigate through the many negative business impacts from the COVID-19 pandemic and related aftermath, 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 \$16.4 million of cash equivalents on hand as of October 31, 2022 and had \$19.5 million in cash and cash equivalents on hand as of April 30, 2022.

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, 2022. 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, 2022, 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 October 31, 2022, 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.

During the three months ended October 31, 2022, we had a change in our internal control over financial reporting that occurred as a result of our implementation of a new ERP system for one of our subsidiaries that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The new ERP system for one of our subsidiaries replaced our legacy system in which a significant portion of our business transactions originate, are processed, and recorded. The rest of our subsidiaries will transition to our new ERP later in fiscal 2023. Our new ERP system is intended to provide us with enhanced transactional processing and management tools compared with our legacy system and is intended to enhance internal controls over financial reporting. We believe our new ERP system will facilitate better transactional reporting and oversight, enhance our internal control over financial reporting, and function as an important component of our disclosure controls and procedures. Other than the change to our ERP system for one of our subsidiaries, there have been no changes in our internal control over financial reporting during our most recent fiscal quarter ended October 31, 2022 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 12 — *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 July 14, 2022, 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 six months ended October 31, 2022 (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
October 1, 2022 to October 31, 2022	84,029	\$ 8.97	84,029	\$ 9,266
Total	84,029	\$ 8.97	84,029	\$ 9,266

(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, block purchases, or in privately negotiated transactions executable through September 29, 2023. During the three and six months ended October 31, 2022, we repurchased 84,029 shares of our common stock, in the open market, for \$756,000 under this authorization, utilizing cash on hand.

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

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

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).

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: December 1, 2022

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

Date: December 1, 2022

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

**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: December 1, 2022

By: */s/ Brian D. Murphy*

Brian D. Murphy

President and Chief Executive Officer

**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: December 1, 2022

By: */s/ H. Andrew Fulmer*

H. Andrew Fulmer

Executive Vice President,

Chief Financial Officer, and Treasurer

**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 October 31, 2022 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: December 1, 2022

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.

**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 October 31, 2022 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: December 1, 2022

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.
