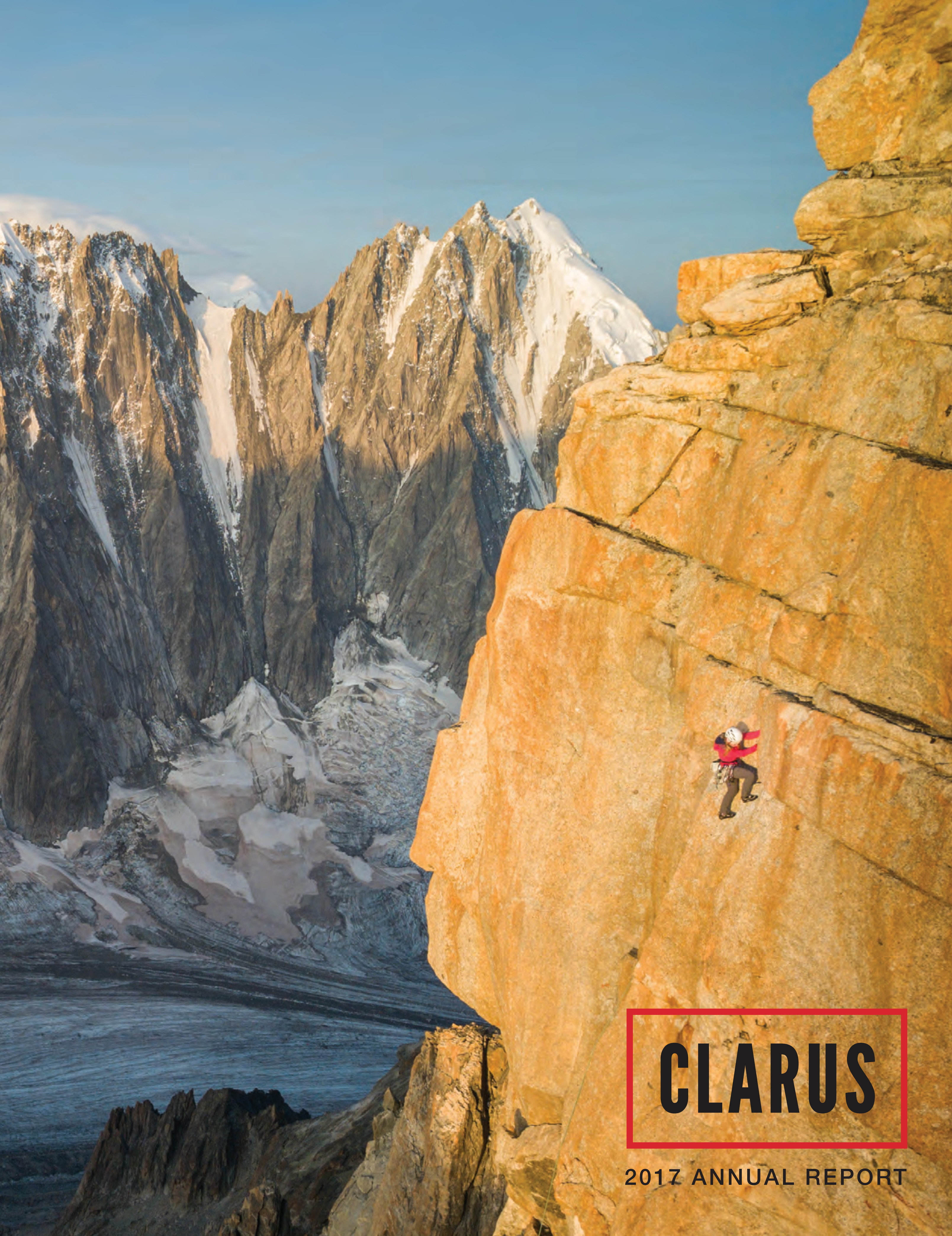


# CLARUS

2017 ANNUAL REPORT

# DEAR FELLOW CLARUS SHAREHOLDERS:

2017 marked a pivotal year in the history of our Black Diamond brand. Our recommitment and investment in the core climbing and mountaineering products that have defined the brand for the past 28 years drove strong annual growth across all of our channels, product categories, and across each of our geographic regions.

Underlying these results was a strategy that we have been communicating to our retail partners, consumers and investors all year. This message is clear: we believe we are innovating our products with a quality and pace faster than our competition. We are improving our fulfillment rates in a way that is enhancing re-order levels and making Black Diamond a better business partner. And we have a clear marketing strategy that speaks to our core consumer. This strategy has not only driven solid sell-through at retail, but is helping to build our retail partners' growing support for our brand.

2017 saw the introduction of over 100 new products across our primary categories of climb, mountain and ski, which was supported by a new marketing strategy aimed at our core audience.

Our marketing campaign remains rooted in two important themes: first, we have returned our focus back to Black Diamond Equipment, and specifically, on new product innovation. Second, we are striving to enhance our brand equity through targeted marketing and public relations campaigns centered around brand experience and national advertising. This includes the regular creation of new digital content that we use on our own website and throughout social media, as well as the launch of our first ever television ad campaigns for the Black Diamond brand, which aired during the 2018 Winter Olympics in mid-February.

During 2017, we had 5.9 million total media impressions, up by more than 50% from 2016, spanning major outdoor publications like Climb, Backcountry, Backpacker, Trail Runner, Outside Magazine and Men's Journal, to more mainstream publications like CNN and National Geographic, to core outlets like Gear Junkie and Teton Gravity Research. We were also awarded 35 industry trade awards in North America and 18 in Europe throughout 2017 from publications ranging from Outside Magazine to Backcountry Magazine, Men's Journal to Powder Magazine. These awards were given to products that spanned all of our major categories, supporting the power of our product diversification.

Now onto our core product categories underlying this exceptional user engagement and honorable recognition. We experienced a record year of sales growth in our climb business on the back of a solid product lineup and the continued rise of climbing gym popularity. This was fueled by growth in harnesses, climbing accessories, our new rope line, as well as the launch of our new climbing shoe line. While only in the market since October, the line has received strong market support by our retail partners and consumers, and won major awards from publications like Men's Journal, Men's Health and Outside Magazine.

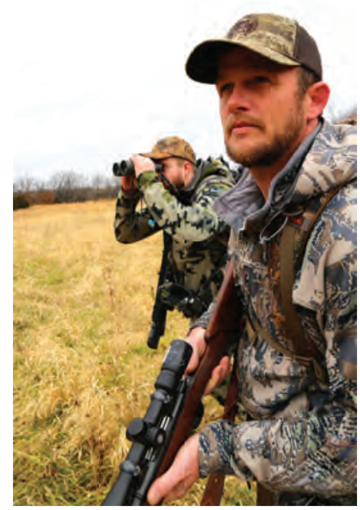
In our ski category, growth was attributed to our focus on snow safety equipment, using our PIEPS brand to deliver complete snow safety toolkits for our backcountry enthusiasts. PIEPS has benefited from Black Diamond's focus on a broad collection built around snow safety, leveraging the Clarus platform under our "two brands, one company" approach.

Growth in our mountain category was driven by continued innovation highlighted by our new collection of Distance FLZ trekking poles, an expanded pack line, and strong collection of new gloves supported by our ISPO Gold Award-winning Helio Glove.

In our apparel business, most of 2017 was spent recalibrating the line to a more focused SKU count that speaks directly to our core consumer. This included rolling out various new styles in outerwear, sportswear and logo wear. We believe the strategic steps taken in apparel throughout 2017 position us for a strong runway of growth in 2018 and beyond.

In addition to our top-line performance, in 2017 we realized significant margin expansion. Continued enhancements in our product and channel mix, the stabilization of our sourcing strategy, particularly our in-house manufacturing, better product fulfillment and lower levels of discontinued merchandise drove a 330 basis point year-over-year increase in adjusted gross margin. This improvement helped drive over a 3x increase in our adjusted EBITDA in 2017, and lays the groundwork for what we expect to be an even stronger 2018.

The redeployment of our capital remains one of our highest priorities. Last August, we changed our corporate name to Clarus Corporation to better reflect our intent to create a more diversified outdoor and consumer-focused business.



We kicked off this strategy with the acquisition of Sierra Bullets in August. As an iconic American manufacturer of bullets, Sierra shares our commitment to the consumer by delivering a product backed by world-class manufacturing and the industry's highest quality control. These attributes have driven the financial characteristics we are seeking in our acquisition strategy, mainly high recurring revenue and cash flow that we expect to maximize through the utilization of our significant net operating loss carryforwards.

We expect to leverage our various strategic and financial resources to accelerate Sierra's growth in 2018. In fact, 2018 will be about replicating the playbook we are executing with Black Diamond today. We can do this because, like Black Diamond, Sierra has an authentic brand with a product rooted in best-in-class performance.

Focused on category segmentation of "Compete, Hunt, Protect, and Defend," Sierra will make investments that will seek to enhance both sales and marketing, including social and digital capabilities, and a new print campaign. We expect to strengthen retail partnerships, improve fulfillment, expand within the law enforcement and military channels, and, of course, continue to innovate new products.

In summary, we believe 2017 was a crucial year of transition in our business, positioning the company for what we believe will be a record 2018. The proactive steps we have taken to invest behind our brands and introduce best-in-class products, all the while supporting this innovation with a clear marketing strategy that speaks to our core consumer, is resonating well with our retailers and building a level of trust that we believe forges long-term relationships. As such, we expect our momentum to continue, and look forward to reporting our progress along the way. Thank you for your continued support.

Sincerely,

**Warren B. Kanders**
*Executive Chairman of Clarus Corporation*

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-K

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

For the fiscal year ended December 31, 2017

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

For the transition period from ____________ to ____________

Commission File Number: **001-34767**

# CLARUS CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **58-1972600**<br>(I.R.S. Employer Identification Number) |
| **2084 East 3900 South**<br>**Salt Lake City, Utah**<br>(Address of principal executive offices) | **84124**<br>(Zip code) |

**(801) 278-5552**
(Registrant's telephone number, including area code)

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

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

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

None
**(Title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES ☐ NO ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

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

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

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

The aggregate market value of the voting stock and non-voting common equity held by non-affiliates of the Registrant at June 30, 2017 was approximately $148.9 million based on $6.65 per share, the closing price of the common stock as quoted on the NASDAQ Global Select Market.

As of March 7, 2018, there were 30,041,265 shares of common stock, par value $0.0001, outstanding.

**DOCUMENT INCORPORATED BY REFERENCE**

Portions of our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the Registrant's 2017 fiscal year end are incorporated by reference into Part III of this Annual Report on Form 10-K.

**INDEX**

**CLARUS CORPORATION**

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## PART I

## ITEM 1. BUSINESS

### Overview

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

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

Clarus Corporation, incorporated in Delaware in 1991, acquired Black Diamond Equipment, Ltd. (which may be referred to as "Black Diamond Equipment" or "BDEL") and Gregory Mountain Products, LLC (which may be referred to as "Gregory Mountain Products", "Gregory" or "GMP") in May 2010 and changed its name to Black Diamond, Inc. in January 2011. In July 2012, we acquired POC Sweden AB and its subsidiaries (collectively, "POC") and in October 2012, we acquired PIEPS Holding GmbH and its subsidiaries (collectively, "PIEPS").

On July 23, 2014, the Company completed the sale of certain assets to Samsonite LLC comprising Gregory Mountain Product's business. On October 7, 2015, the Company sold its equity interests in POC.

On August 14, 2017, the Company changed its name from Black Diamond, Inc. to Clarus Corporation and its stock ticker symbol from "BDE" to "CLAR" on the NASDAQ stock exchange. On August 21, 2017, the Company acquired Sierra Bullets, L.L.C. ("Sierra" or "Sierra Bullets").

### Market Overview

Our primary target customers are outdoor-oriented consumers who enjoy active, outdoor-focused lifestyles. The users of our products are made up of a wide range of outdoor enthusiasts, including climbers, skiers, backpackers and campers, competitive shooters, hunters and other outdoor-inspired consumers. We believe we have a strong reputation for style, quality, design, and durability in each of our core product lines.

As the variety of outdoor sports activities continue to grow and proliferate, and existing outdoor sports evolve and become ever more specialized, we believe other outdoor companies are failing to address the unique technical and performance needs of enthusiasts involved in such specialized activities. We believe we have been able to help address this void in the marketplace by seeking to leverage our user intimacy and improving on our existing product lines by expanding our product offerings into new niche categories and products, and by incorporating innovative industrial design and engineering and performance tolerances into our products. We believe the credibility and authenticity of our brands expands our potential market beyond committed outdoor athletes to those outdoor generalist consumers who desire to lead active outdoor-focused lifestyles.

### Growth Strategies

Our growth strategies are to achieve sustainable, profitable growth organically while seeking to expand our business through targeted, strategic acquisitions. We intend to create innovative new products, increase consumer and retailer awareness and demand for our products, and build stronger emotional brand connections with consumers over time across a growing number of geographic markets.

***Continue to Service and Grow Existing Accounts.*** We continue to seek to develop strong relationships with our key retail, distributor and OEM partners through a mutual respect and admiration for the sports we serve. Through our various corporate initiatives, a focus on being easy to do business with, the extension of our existing product portfolios, and an emphasis on quality, brand awareness and marketing, we plan to grow our existing accounts as well as foster new relationships.

***Broaden Distribution Footprint.*** We believe there is a significant opportunity to expand the presence and penetration of each of our brands outside of the U.S. market. The European alpine market is currently significantly larger than the U.S. market and is highly fragmented by country, with no clear leader across Europe. We have been able to gain market share by emphasizing our Black Diamond brand, positioning it as a global brand with American roots and PIEPS as a global brand with European roots. We believe there is also a significant opportunity to expand our Sierra brand more extensively outside the U.S. market through additional sales and marketing investments.

***New Product Development and Innovation.*** To drive organic growth within our existing businesses, we intend to leverage our strong brand names, customer relationships and proven capacity for innovation to develop new products and product extensions in each of our existing product categories, and to expand into new product categories. Our new technologies are generally inspired by our continuing commitment to maximize the enjoyment and efficacy of the products for the outdoor sports for which we design.

***Acquisition of Complementary Businesses.*** We expect to target acquisitions as a viable opportunity to gain access to new product groups and customer channels and increase penetration of existing markets. We may also pursue acquisitions that diversify the Company into new and unrelated markets. To the extent we pursue future acquisitions, we intend to focus on businesses with leading brands, recurring revenue, sustainable margins and strong cash flow. We anticipate financing future acquisitions prudently through a combination of cash on hand, operating cash flow, bank financings and new capital markets offerings.

**Competitive Strengths**

***Authentic Portfolio of Iconic Brands.*** We believe that our brands are iconic among devoted active outdoor enthusiasts with a strong reputation for innovation, style, quality, design, safety and durability. Our Black Diamond brand traces its roots to 1957 and has continuously been synonymous with the sports it serves. Our PIEPS brand traces its history to 1967 and has come to represent premium alpine performance in emergency situations. Our Sierra brand was founded in 1947 and we believe represents the most precise and accurate bullets available for the shooting enthusiast. Our brands also appeal to everyday customers seeking high quality products for outdoor or urban and suburban living. Our focus on innovation, safety and style differentiates us from our competitors.

Black Diamond

*Black Diamond Equipment:* Black Diamond Equipment products are designed for climbers, mountaineers and skiers as well as aspirational outdoor enthusiasts. We focus on innovation and performance, and we strive to deliver products that epitomize high quality and durability. Over the last ten years, Black Diamond Equipment has received over 500 product awards. In Spring 2017, Black Diamond Equipment received several awards in the climbing equipment category for its debut in rock climbing shoes. Specifically, its new Momentum climbing shoe, featuring Black Diamond's innovative engineered knit technology, received several editorial awards from such outlets as Outside, Men's Journal, Men's Health, Gear Patrol and GearJunkie. For Fall 2017, Black Diamond Equipment's ski category was awarded over twenty editorial awards for products including its new Boundary Pro 107, Boundary Pro 115, Route 95 and Helio 88 skis. Notably, Black Diamond Equipment apparel was recognized by ISPO with an ISPO Gold award in the outdoor category for its Helio Glove. So far in 2018, Black Diamond Equipment earned two awards at the Outdoor Retailer Winter Market 2018 in Denver, Colorado, and at 2018 ISPO Munich. Award winning products include its Offset Stoppers and Engineered Chalk, both from the climbing category.

PIEPS

*PIEPS:* Headquartered in Lebring, Steiermark, Austria, PIEPS is widely recognized as an innovator and technology leader in beacon technology (having created the modern avalanche transceiver) and avalanche safety equipment. PIEPS offers a focused range of premium avalanche safety products, including transceivers and probes, shovels, related equipment, and packs. PIEPS is the official safety partner of the Association of Austrian Mountain and Ski Guides. PIEPS played a key partnership role with Black Diamond Equipment in development of the new JetForce avalanche airbag technology platform. Most recently in January 2018, PIEPS earned "Gear of the Year" honors for its newest avalanche beacon, the Micro, from BackcountrySkiingCanada.com.

SIERRA
The Bulletsmiths®

*Sierra:* Sierra is an iconic American manufacturer of bullets. Based in Sedalia, Missouri since 1990, Sierra manufactures a wide range of high performance bullets for both rifles and pistols. Sierra bullets are used for precision target shooting, hunting and military and law enforcement purposes.

***Strong Base of Business.*** Our outdoor products business benefits from a strong reputation for paradigm changing, high quality, innovative products that make us a leader in the outdoor industry with particular strength in product categories such as climbing, skiing, mountaineering and shooting. Underlying our innovative product lines is a strong stable of intellectual property, with multiple patents and patent applications, as well as valuable brands and trademarks. In addition, our user intimacy, strong retailer partnerships, operations and execution acumen and leadership as a champion in the access, education, and stewardship issues that affect our customers contribute to the robustness of our business.

***Product Innovation and Development Capabilities***. We have a long history of technical innovation and product development, with over 100 patents and patents pending worldwide. Our employees' passion and intimacy with our core outdoor activities fosters new and innovative ideas and products, which we believe provides a significant advantage that will drive our Company to new levels. We seek to design products that enhance our customers' personal performance as they participate in the activities we serve. We integrate quality assurance and quality control teams throughout the entire design process to maintain the quality and integrity that our brands are known for. We believe that our vertically integrated design, development process and enthusiastic employee base provide us with a unique competitive advantage to continue to drive future innovation for our Company and the markets we serve.

***Diversified Portfolio by Product, Geography and Channel.*** Our business is highly diversified across products, geographies, and channels. We operate a multi-brand business with Black Diamond, Sierra, and PIEPS branded products spanning 30 single product categories addressing four primary categories of climbing, skiing, mountain, and sport. Our lighting and bullet categories are the only product categories that account for more than 15% of annual sales on a pro forma basis for the year ended December 31, 2017. This provides seasonal diversification with a balance of sales across both the fall/winter and spring/summer sports seasons. Our brands are truly global with approximately 46% of our sales on a pro forma basis for the year ended December 31, 2017 generated outside the United States in over 50 countries. We believe that our product, geographic, and distribution channel diversity allows us to maximize the reach of our brand portfolio while reducing the risk associated with any single product category or point of distribution.

***Experienced and Incentivized Senior Management Team.*** The members of our Board of Directors and our executive officers, including Mr. Warren Kanders, are substantial stockholders of the Company, and beneficially own approximately 29% of our outstanding common stock as of March 7, 2018, which we believe aligns the interests of our Board of Directors and our executive officers with that of our stockholders.

***Growth-oriented Capital Structure.*** Our capital structure provides us with the capacity to fund future growth and our net operating loss and tax credit carryforwards are expected to offset our net taxable income, which is expected to allow us to retain cash flow for future growth.

**Operating Segments**

As a result of our August 21, 2017 acquisition of Sierra, we now operate our business structure within two segments. These segments are defined based on the internal financial reporting used by management. Certain significant selling and general and administrative expenses are not allocated to the segments. Each segment is described below:

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

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

See Note 16 to our consolidated and combined financial statements for financial information regarding our segments.

**Products**

Our products span 30 single product categories and include a wide variety of technical outdoor equipment and lifestyle products for a wide range of outdoor enthusiasts, including climbers, skiers, backpackers and campers, competitive shooters, hunters and other outdoor-inspired consumers. We design many of our products for extreme applications, such as high-altitude mountaineering, ice and rock climbing, as well as backcountry skiing and alpine touring. We also manufacturer high quality bullets with the tightest tolerances in the industry that enhance the performance of competitive shooters and hunters. Generally, we divide our product offerings into the following four primary categories:

- Climb: Our climb line consists of apparel, and equipment such as belay/rappel devices, bouldering products, carabiners, climbing packs, crampons, harnesses, ice axes, protection devices, a bouldering line of technical apparel, and various other climbing accessories. Our climb line represented approximately 31% of our sales on a pro forma basis during the year ended December 31, 2017.

- Mountain: Our mountain line consists of apparel, gloves, packs, headlamps, lights, tents, trekking poles, and various other hiking and mountaineering accessories. Our mountain line represented approximately 35% of our sales on a pro forma basis during the year ended December 31, 2017.

- Ski: Our ski line consists of technical apparel, avalanche airbags, packs, bindings, poles, skis, snow gloves, avalanche safety devices, and other skiing accessories. Our ski line represented approximately 18% of our sales on a pro forma basis during the year ended December 31, 2017.

- Sport: Our sport line consists of premium quality high-precision bullets used in competitive shooting, hunting and other applications and environments. Our sport line represented approximately 16% of our sales on a pro forma basis during the year ended December 31, 2017.


**Product Design and Development**

We conduct our product research and design activities at our locations in Salt Lake City, Utah, Sedalia, Missouri and Lebring, Austria, and conduct product evaluations at our offices located in Innsbruck, Austria.

We typically bring new products from concept to market in approximately 24 to 36 months depending upon the technology integration and complexity of the product. We work simultaneously on product lines for the four subsequent selling seasons.

We expense research and development costs as incurred. As of December 31, 2017, we had 61 employees dedicated to research and development and have spent approximately $22.1 million in connection with research and development activities over the last three calendar years.

**Customers**

We market and distribute our products in over 50 countries, primarily through independent specialty stores and specialty chains, premium sporting goods and outdoor recreation stores, distributors and OEMs in the United States, Canada, Europe, Middle East, Asia, Australia, New Zealand, and South America. Outside of North America and Europe, we sell our products through independent global distributors into specialty retail stores. We also sell our products directly to customers through our various websites.

Our end users include a broad range of consumers, including mountain, rock, ice, and gym climbers, winter outdoor enthusiasts, backpackers, competitive shooters, hunters, and outdoor-inspired consumers. Such consumers demand high-quality, reliable, and high-precision products to enhance their performance and, in some cases, safety in a multitude of outdoor activities. We expect to leverage our user intimacy, engineering prowess, and design ability to expand into related technical product categories that target the same demographic group and distribution channels.

During 2017, REI accounted for approximately 13% of our sales on a pro forma basis. The loss of this customer could have a material adverse effect on us.

**Sales and Marketing**

Our sales force is generally deployed by geographic region: Canada, Europe, Latin America, Asia, and the United States. Our focus is on providing our products to a broad spectrum of outdoor enthusiasts. Within each of our brands, we strive to create a unique look for our products and to communicate those differences to the consumer. In addition, we are continuously exploring uses for brand and market research. We also regularly utilize various promotions and public relations campaigns.

We have consistently established relationships with professional athletes and influencers to help evaluate, promote and establish product performance and authenticity with customers. Such brand endorsers are one of many elements in our array of marketing materials, including instore displays, brochures and on our websites.

**Manufacturing, Sourcing, Quality Assurance and Distribution**

***Manufacturing***

Our objective is to deliver high quality products on-time, in the most cost-efficient manner, and to support innovation to market. To achieve this, everyone in the organization is involved to continuously improve how we operate.

The Black Diamond Equipment and PIEPS manufacturing and distribution operations are ISO 9001–2008 certified by an independent certifying agency and are audited yearly by an independent certifying body to ensure Black Diamond Equipment’s and PIEPS’ quality management systems meet the requirements of ISO 9001–2008 and to ensure that Black Diamond Equipment’s and PIEPS’ certified products meet all necessary certification requirements. Sierra employs a best-in-class proprietary manufacturing process with respect to each one of its products. This process is performed in house and includes control of bullet jacket wall concentricity utilizing strict quality control standards overseen by experienced employees, yielding what we believe to be the tightest tolerances in the industry.

We manufacture approximately 25% to 30% of our products, including nearly all climbing hard goods and bullets, in our facilities in the United States. The remaining approximately 70% to 75% of our products are also manufactured to our specifications in third-party, independently-owned facilities. We keep employees and agents on-site or via regular visits at these third-party, independently owned facilities to ensure that our products are manufactured to meet our specifications. While we do not maintain a long-term manufacturing contract with those facilities, we believe that our long-term relationships with them will help to ensure that a sufficient supply of goods built to our specification are available in a timely manner and on satisfactory economic terms in the future.

***Sourcing***

We source raw materials and components from a variety of suppliers. Our primary raw materials include copper, lead, aluminum, steel, nylon, corrugated cardboard for packaging, metal, plastic and electrical components, and various textiles, foams, and fabrics. The raw materials and components used to manufacture our products are generally available from numerous suppliers in quantities sufficient to meet normal requirements.

We source packaging materials both domestically as well as from sources in Asia and Europe. We believe that all of our purchased products and materials could be readily obtained from alternative sources at comparable costs.

***Quality Assurance***

Quality assurance at the Company has two primary functions:

- The first is to ensure that the products that we design and develop are manufactured to meet or exceed the Company’s own standards and international regulatory standards. This involves creating inspection documentation, reviewing manufacturing processes with our various vendor-partners, and inspecting finished product to assure it meets the rigorous standards required by our customers. These activities take place globally, wherever our products are manufactured.

- The second function is to provide real and meaningful input to the new product development process. Quality assurance professionals interact closely with the design team and bring knowledge and expertise to the design process, ensuring that the products we bring to market truly meet the criteria established by the category director when a new product is envisioned.

The engineering prowess of the quality assurance group is a core competency that the Company seeks to leverage across all product lines and brands.

***Global Distribution***

Our distribution model allows us to ship a broad cross-section of our product line in smaller quantities to our own global distribution centers and to those of our Independent Global Distributors (IGD) more frequently and at lower transportation and logistics costs.

**Competition**

Because of the diversity of our product offerings, we compete by niche with a variety of companies. Our products must stand up to the high standards set by the end users in each category where quality, durability and performance are paramount. We believe our products compete favorably on the basis of product innovation, product performance, marketing support, and price.

The popularity of various outdoor activities and changing design trends affect the desirability of our products. Therefore, we seek to anticipate and respond to trends and shifts in consumer preferences by adjusting the mix of available product offerings by developing new products with innovative performance features and designs, and by marketing our products in a persuasive and memorable fashion to drive consumer awareness and demand. Failure to anticipate or respond to consumer needs and preferences in a timely and adequate manner could have a material adverse effect on our sales and profitability.

We compete with niche, privately-owned companies as well as a number of brands owned by large multinational companies, such as those set forth below.

- Climb: Our climbing products and accessories, such as belay devices, carabiners, and harnesses, compete with products from companies such as Arc'Teryx, Petzl, CAMP, EDELRID, and Mammut.

- Mountain: Our mountaineering products, such as backpacks, trekking poles, headlamps, and tents, compete with products from companies such as Petzl, Mammut, Deuter, Leki, Komperdell, Marmot, Mountain Hardwear, Osprey, Sierra Designs, and The North Face.

- Ski: Our skiing apparel, equipment and accessories, such as technical apparel, skis, poles, avalanche airbags and transceivers, compete with products from competitors such as Arc'Teryx, Backcountry Access, Dynafit (Salewa), Dynastar (Lange), K2, Mammut, Marker, Nordica, Ortovox, Salomon, Scarpa, Scott, and Volkl.

- Sport: Our sport products are unique in that Sierra is the only pure-play bullet manufacturer. As such, we both sell bullets to retailers and distributors for sale to consumers but also supply OEMs who also sometimes manufacture bullets as well. Such companies include Vista, Nammo, Hornady, Fiocchi, Olin, and Remington.

In addition, in certain categories we compete with certain of our large wholesale customers who focus on the outdoor market, such as REI, Mountain Equipment Co-op and Decathlon, which manufacture, market and distribute their own climbing, skiing, and mountaineering products under their own private labels.

**Intellectual Property**

We believe our registered and pending word and icon trademarks worldwide, including the Black Diamond and Diamond "C" logos, Black Diamond®, ATC ®, Camalot®, AvaLung ®, FlickLock®, Ascension™, Time is Life®, Hexentric®, Stopper®, Dawn Patrol®, Bibler®, "Use.Design.Build.Engineer.Repeat"™, Sierra®, Sierra® MatchKing®, Sierra® GameKing®, Sierra® BlitzKing® and PIEPS™, create international brand recognition for our products.

We believe our brands have an established reputation for high quality, reliability, and value, and accordingly, we actively monitor and police our brands against infringement to ensure their viability and enforceability.

In addition to trademarks, we hold over 100 patents and patents pending worldwide for a wide variety of technologies across our product lines.

Our success with our proprietary products is generally derived from our "first mover" advantage in the market as well as our commitment to protecting our current and future proprietary technologies and products, which acts as a deterrent to infringement of our intellectual property rights. While we believe our patent and trademark protection policies are robust and effective, if we fail to adequately protect our intellectual property rights, competitors may manufacture and market products similar to ours. Our principal intellectual property rights include our patents and trademarks but also include products containing proprietary trade secrets and manufacturing know-how.

We cannot be sure that we will receive patents for any of our patent applications or that any existing or future patents that we receive or license will provide competitive advantages for our products. While we actively monitor our competitors to ensure that we do not compromise the intellectual property of others, we cannot be sure that competitors will not challenge, invalidate or void the application of any existing or future patents that we receive or license. In addition, patent rights may not prevent our competitors from developing, using or selling products that are in similar product niches as ours.

**Seasonality**

The Company's products are outdoor recreation related, which results in seasonal variations in sales and profitability. On a calendar year basis, we generally experience our greatest sales in the first and second quarters for certain of our products including rock climbing gear, packs and tents, and in the third and fourth quarters for our ski, glove and ice climbing products. Sales of these products may be negatively affected by unfavorable weather conditions and other market trends. The fall/winter season represents approximately 53% of our sales on a pro forma basis while spring/summer represents approximately 47% of our sales on a pro forma basis. Sales of other products such as headlamps, lanterns, trekking poles and bullets are generally balanced throughout the year.

Working capital requirements vary throughout the year. Working capital increases during the first and third quarters of the year as inventory builds to support peak shipping periods and then decreases during the second and fourth quarters of the year as those inventories are sold and accounts receivable are collected.

**Environmental Matters**

Our operations are subject to federal, state, and local environmental, health and safety laws and regulations, including those that impose workplace standards and regulate the discharge of pollutants into the environment and establish standards for the handling, generation, emission, release, discharge, treatment, storage, and disposal of materials and substances including solid and hazardous wastes. We believe that we are in material compliance with such laws and regulations. Further, the cost of maintaining compliance has not, and we believe in the future, will not have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. Due to the nature of our operations and the frequently changing nature of environmental compliance standards and technology, we cannot predict with any certainty that future material capital or operating expenditures will not be required in order to comply with applicable environmental laws and regulations.

**Employees**

As of December 31, 2017, we had over 500 employees worldwide. We have not experienced any work stoppages or employee-related slowdowns and believe that our relationship with employees is satisfactory.

**Executive Officers of the Registrant**

The executive officers of our Company as of December 31, 2017 are as follows:

*Warren B. Kanders*, 60, our Executive Chairman, has served as one of our directors since June 2002 and as Executive Chairman of our Board of Directors since December 2002. Since 1990, Mr. Kanders has served as the President of Kanders & Company, Inc., a private investment firm principally owned and controlled by Mr. Kanders, which makes investments in and provides consulting services to public and private entities. From January 1996 until its sale to BAE Systems plc on July 31, 2007, Mr. Kanders served as the Chairman of the Board of Directors, and from April 2003 as the Chief Executive Officer, of Armor Holdings, Inc., formerly a New York Stock Exchange-listed company and a manufacturer and supplier of military vehicles, armored vehicles, and safety and survivability products and systems to the aerospace and defense, public safety, homeland security, and commercial markets. Mr. Kanders received an A.B. degree in Economics from Brown University.

*Aaron J. Kuehne*, 39, has served as our Chief Financial Officer, Secretary and Treasurer, since November 2013 and as our Chief Administrative Officer since May 16, 2016. Mr. Kuehne previously served as the Company's interim Chief Financial Officer, in addition to serving as its Vice President of Finance, principal financial officer and principal accounting officer. Before joining the Company in September 2010, Mr. Kuehne served as the Corporate Controller of Certiport from August 2009 to September 2010. From July 2004 to August 2009, Mr. Kuehne served in various capacities with KPMG LLP, most recently as Audit Manager. Mr. Kuehne graduated with a Bachelor of Arts degree in Accounting from University of Utah – David Eccles School of Business in 2002 and with an M.B.A. degree from University of Utah – David Eccles School of Business in 2004.

**Available Information**

Our Internet address is www.claruscorp.com. We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, and the proxy statement for our annual meeting of stockholders as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Forms 3, 4 and 5 filed with respect to our equity securities under Section 16(a) of the Securities Exchange Act of 1934, as amended, are also available on our website. All of the foregoing materials are located at the ''SEC Filings'' tab under the section titled "Investor Relations." The information found on our website shall not be deemed incorporated by reference by any general statement incorporating by reference this report into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such Acts.

Materials we file with the Securities and Exchange Commission may be read and copied at the Securities and Exchange Commission's Public Reference Room at 100 F Street, Room 1580, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Securities and Exchange Commission at www.sec.gov. In addition, you may request a copy of any such materials, without charge, by submitting a written request to: Clarus Corporation, c/o the Secretary, 2084 East 3900 South, Salt Lake City, UT 84124. The contents of the websites identified above are not incorporated into this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

In addition to other information contained in this Annual Report on Form 10-K, the following risk factors should be carefully considered in evaluating our business, because such factors may have a significant impact on our business, operating results, liquidity and financial condition. As a result of the risk factors set forth below, actual results could differ materially from those mentioned in any forward-looking statements. Additional risks and uncertainties not presently known to us, or that we currently consider to be immaterial, may also impact our business, operating results, liquidity and financial condition. If any of the following risks occur, our business, operating results, liquidity and financial condition, and the price of our common stock, could be materially adversely affected.

### Risks Related to Our Industry

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

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

We remain exposed to product liability claims by the nature of the products we produce. Exposure occurs if one of our products is alleged to have resulted in property damage, bodily injury or other adverse effects. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product or activities associated with the product, negligence, strict liability, and a breach of warranties. Although we maintain product liability insurance in amounts that we believe are reasonable, there can be no assurance that we will be able to maintain such insurance on acceptable terms, if at all, in the future or that product liability claims will not exceed the amount of insurance coverage. Additionally, we do not maintain product recall insurance. As a result, product recalls or product liability claims could have a material adverse effect on our business, results of operations and financial condition.

As a manufacturer and distributor of consumer products, we are subject to the Consumer Products Safety Act, which empowers the Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Products Safety Commission could require us to repurchase or recall one or more of our products. Additionally, laws regulating certain consumer products exist in some cities and states, as well as in other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future. Any repurchase or recall of our products could be costly to us and could damage our reputation. If we were required to remove, or we voluntarily removed, our products from the market, our reputation could be tarnished and we might have large quantities of finished products that we could not sell.

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

Our product liability insurance program is an occurrence-based program based on our current and historical claims experience and the availability and cost of insurance. We carry both general and umbrella liability policies that insure us for product liability claims. The policy has a small retention, which enables us to manage and control our product liability claims. Historically, product liability awards have not exceeded our individual per occurrence self-insured retention. We cannot assure you, however, that our future product liability experience will be consistent with our past experience.

**A substantial portion of our sales and gross profit is derived from a small number of large customers, none of whom are contractually obligated to continue buying our products. The loss of any of these customers could substantially reduce our profits.**

A customer accounts for a significant portion of revenues. In the year ended December 31, 2017, REI accounted for approximately 13% of pro forma sales. Sales are generally on a purchase order basis, and we do not have long-term agreements with any of our customers. A decision by any of our major customers to decrease significantly the number of products purchased from us could substantially reduce sales and have a material adverse effect on our business, financial condition and results of operations. Moreover, in recent years, the retail industry has experienced consolidation and other ownership changes. In the future, retailers may further consolidate, undergo restructurings or reorganizations, realign their affiliations or reposition their stores' target market. These developments could result in a reduction in the number of stores that carry our products, increased ownership concentration within the retail industry, increased credit exposure, and increased retailer leverage over their suppliers. These changes could impact our opportunities in the market and increase our reliance on a smaller number of large customers.

**We are subject to risks related to our dependence on the strength of retail economies in various parts of the world and our performance may be affected by general economic conditions.**

Our business depends on the strength of the retail economies in various parts of the world, primarily in North America, Europe and to a lesser extent, Asia, Central and South America. These retail economies are affected primarily by factors such as consumer demand and the condition of the retail industry, which, in turn, are affected by general economic conditions and specific events such as natural disasters, terrorist attacks, and political unrest. The impact of these external factors is difficult to predict, and one or more of the factors could adversely impact our business, results of operations, and financial condition.

Purchases of many consumer products are discretionary and tend to be highly correlated with the cycles of the levels of disposable income of consumers. As a result, any substantial deterioration in general economic conditions could adversely affect consumer discretionary spending patterns, our sales, and our results of operations. In particular, decreased consumer confidence or a reduction in discretionary income as a result of unfavorable macroeconomic conditions may negatively affect our business. If the macroeconomic environment worsens, consumers may reduce or delay their purchases of our products. Any such reduction in purchases could have a material adverse effect on our business, financial condition, and results of operations.

**Changes in the retail industry and markets for consumer products affecting our customers or retailing practices could negatively impact existing customer relationships and our results of operations.**

We sell our products to retailers, including sporting goods and specialty retailers, as well as direct to consumers. A significant deterioration in the financial condition of our major customers could have a material adverse effect on our sales and profitability. We regularly monitor and evaluate the credit status of our customers and attempt to adjust sales terms as appropriate. Despite these efforts, a bankruptcy filing by a key customer could have a material adverse effect on our business, results of operations, and financial condition.

In addition, as a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among retailers to make purchases on a "just-in-time" basis. This requires us to shorten our lead time for production in certain cases and more closely anticipate demand, which could in the future require us to carry additional inventories.

We may be negatively affected by changes in the policies of our retailer customers, such as inventory destocking, limitations on access to and time on shelf space, use of private label brands, price demands, payment terms, and other conditions, which could negatively impact our results of operations.

There is a growing trend among retailers in the U.S. and in foreign markets to undergo changes that could decrease the number of stores that carry our products or increase the concentration of ownership within the retail industry, including:

- consolidating their operations;
- undergoing restructurings or store closings;
- undergoing reorganizations; or

- realigning their affiliations.

These consolidations could result in a shift of bargaining power to the retail industry and in fewer outlets for our products. Further consolidations could result in price and other competition that could reduce our margins and our net sales.

**Seasonality and weather conditions may cause our operating results to vary from quarter to quarter.**

Sales of certain of our products are seasonal. Sales of our outdoor recreation products such as carabineers, harnesses, and related climbing equipment products increase during warm weather months and decrease during winter, while sales of our apparel line and winter sports equipment such as our skis and related ski equipment increase during the cold weather months and decrease during summer. Weather conditions may also negatively impact sales. For instance, milder temperatures could prevent the formation of ice, which may negatively affect demand for our ice climbing products, and mild winter weather with less snowfall may negatively impact sales of our winter sports products. These factors could have a material adverse effect on our business, results of operations, and financial condition.

**Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products.**

We often schedule internal production and place orders for products with independent manufacturers before our customers' orders are firm. Therefore, if we fail to accurately forecast customer demand, we may experience excess inventory levels or a shortage of product to deliver to our customers. Factors that could affect our ability to accurately forecast demand for our products include:

- an increase or decrease in consumer demand for our products or for products of our competitors;
- our failure to accurately forecast customer acceptance of new products;
- new product introductions by competitors;
- unanticipated changes in general market conditions or other factors, which may result in cancellations of orders or a reduction or increase in the rate of reorders placed by retailers;
- weak economic conditions or consumer confidence, which could reduce demand for discretionary items such as our products; and
- terrorism or acts of war, or the threat of terrorism or acts of war, which could adversely affect consumer confidence and spending or interrupt production and distribution of product and raw materials.

Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have an adverse effect on our business, results of operations, and financial condition. On the other hand, if we underestimate demand for our products, our manufacturing facilities or third party manufacturers may not be able to produce products to meet customer requirements, and this could result in delays in the shipment of products and lost revenues, as well as damage to our reputation and customer relationships. There can be no assurance that we will be able to successfully manage inventory levels to exactly meet future order and reorder requirements.

**Competition in our industries may hinder our ability to execute our business strategy, achieve profitability, or maintain relationships with existing customers.**

We operate in a highly competitive industry. In this industry, we compete against numerous other domestic and foreign companies. Competition in the markets in which we operate is based primarily on product quality, product innovation, price, and customer service and support, although the degree and nature of such competition vary by location and product line. Some of our competitors are more established in their industries and have substantially greater revenue or resources than we do. Our competitors may take actions to match new product introductions and other initiatives. Since many of our competitors also source their products from third parties, our ability to obtain a cost advantage through sourcing is reduced. Certain of our competitors may be willing to reduce prices and accept lower profit margins to compete with us. Further, retailers often demand that suppliers reduce their prices on existing products. Competition could cause price reductions, reduced profits or losses or loss of market share, any of which could have a material adverse effect on our business, results of operations, and financial condition.

To compete effectively in the future in the consumer products industry, among other things, we must:

- maintain strict quality standards;
- develop new and innovative products that appeal to consumers;
- deliver products on a reliable basis at competitive prices;

- anticipate and respond to changing consumer trends in a timely manner;
- maintain favorable brand recognition; and
- provide effective marketing support.

Our inability to do any of these things could have a material adverse effect on our business, results of operations and financial condition.

**If we fail to expand existing or develop new customer relationships, our ability to grow our business will be impaired.**

Our growth depends to a significant degree upon our ability to expand existing relationships with current customers or develop new customer relationships. We cannot guarantee that new customers will be found, that any such new relationships will be successful when we do get them, or that business with current customers will increase. Failure to develop and expand such relationships could have a material adverse effect on our business, results of operations, and financial condition.

**If we fail to adequately protect our intellectual property rights, competitors may manufacture and market products similar to ours, which could adversely affect our market share and results of operations.**

Our success with our proprietary products depends, in part, on our ability to protect our current and future technologies and products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property rights, competitors may manufacture and market products similar to ours. Our principal intellectual property rights include our trademarks, patents, and trade secrets.

We hold numerous patents for the invention of new or improved technologies, which are known as utility patents, and pending patent applications covering a wide variety of products. We cannot be sure that we will receive patents for any of our patent applications or that any existing or future patents that we receive or license will provide competitive advantages for our products. We also cannot be sure that competitors will not challenge, invalidate or avoid the application of any existing or future patents that we receive or license. In addition, patent rights may not prevent our competitors from developing, using or selling products that are similar or functionally equivalent to our products.

Third parties may have patents, or may be awarded new patents, that may materially adversely affect our ability to market, distribute and sell our products. Accordingly, our products, including, but not limited to, our technical climbing and backpack products, may become subject to patent infringement claims or litigation, any adverse determination of which could have a material adverse effect on our business, results of operations, and financial condition.

**Changes in foreign, cultural, political, and financial market conditions could impair our international operations and financial performance.**

Some of our operations are conducted or products are sold in countries where economic growth has slowed, such as Japan, or where economies have suffered economic, social and/or political instability or hyperinflation, including, for example, the uncertainty related to the United Kingdom’s June 2016 vote to leave the European Union (commonly known as “Brexit”). The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar relative to other currencies may adversely affect our operating results. The announcement of Brexit and the withdrawal of the U.K. from the E.U. may also create global economic uncertainty, which may cause consumers to reduce their spending.

Additionally, some of our operations are conducted or products are sold in countries where the ability to repatriate funds has been delayed or impaired in recent years. Current government economic and fiscal policies, including stimulus measures and currency exchange rates and controls in these economies may not be sustainable and, as a result, our sales or profits related to those countries may decline.

The economies of other foreign countries important to our operations, including other countries in Asia and Europe, could also suffer slower economic growth or economic, social and/or political instability or hyperinflation in the future. International operations, including manufacturing and sourcing operations (and the international operations of our customers), are subject to inherent risks which could adversely affect us, including, among other things:

- protectionist policies restricting or impairing the manufacturing, sales or import and export of our products;
- new restrictions on access to markets;
- lack of developed infrastructure;
- inflation or recession;

- devaluations or fluctuations in the value of currencies;
- changes in and the burdens and costs of compliance with a variety of foreign laws and regulations, including tax laws, accounting standards, environmental laws and occupational health and safety laws;
- social, political or economic instability;
- acts of war and terrorism;
- natural disasters or other crises;
- reduced protection of intellectual property rights in some countries;
- increases in duties and taxation; and
- restrictions on transfer of funds and/or exchange of currencies; expropriation of assets; and other adverse changes in policies, including monetary, tax and/or lending policies, relating to foreign investment or foreign trade by our host countries.

Should any of these risks occur, our ability to sell or export our products or repatriate profits could be impaired and we could experience a loss of sales and profitability from our international operations, which could have a material adverse impact on our business.

**If we cannot continue to develop new products in a timely manner, and at favorable margins, we may not be able to compete effectively.**

We believe that our future success will depend, in part, upon our ability to continue to introduce innovative design extensions for our existing products and to develop, manufacture, and market new products. We cannot assure you that we will be successful in the introduction, manufacturing, and marketing of any new products or product innovations, or develop and introduce, in a timely manner, innovations to our existing products that satisfy customer needs or achieve market acceptance. Our failure to develop new products and introduce them successfully and in a timely manner, and at favorable margins, would harm our ability to successfully grow our business and could have a material adverse effect on our business, results of operations, and financial condition.

**Our operating results can be adversely affected by changes in the cost or availability of raw materials.**

Pricing and availability of raw materials for use in our businesses can be volatile due to numerous factors beyond our control, including general, domestic, and international economic conditions, labor costs, production levels, competition, consumer demand, import duties, and tariffs and currency exchange rates. This volatility can significantly affect the availability and cost of raw materials for us, and may therefore have a material adverse effect on our business, results of operations, and financial condition.

During periods of rising prices of raw materials, there can be no assurance that we will be able to pass any portion of such increases on to customers. Conversely, when raw material prices decline, customer demands for lower prices could result in lower sale prices and, to the extent we have existing inventory, lower margins. We currently do not hedge against our exposure to changing raw material prices. As a result, fluctuations in raw material prices could have a material adverse effect on our business, results of operations, and financial condition.

Supply shortages or changes in availability for any particular type of raw material can delay production or cause increases in the cost of manufacturing our products. We may be negatively affected by changes in availability and pricing of raw materials, which could negatively impact our results of operations.

**Our operations in international markets, and earnings in those markets, may be affected by legal, regulatory, political, and economic risks.**

Our ability to maintain the current level of operations in our existing international markets and to capitalize on growth in existing and new international markets is subject to risks associated with international operations. These include the burdens of complying with a variety of foreign laws and regulations, unexpected changes in regulatory requirements, new tariffs or other barriers to some international markets. For example, the United States' withdrawal from the Trans-Pacific Partnership, any future withdrawal or renegotiation of trade agreements, including the North American Free Trade Agreement, or the more aggressive prosecution of trade disputes with countries like China, may adversely affect our ability to operate our business and execute our growth strategy. In addition, it may be more difficult for us to enforce agreements, collect receivables, receive dividends and repatriate earnings through foreign legal systems.

We cannot predict whether quotas, duties, taxes, exchange controls or other restrictions will be imposed by the United States, the European Union or other countries upon the import or export of our products in the future, or what effect any of these actions would have on our business, financial condition or results of operations. We cannot predict whether there might be changes in our ability to repatriate earnings or capital from international jurisdictions. Changes in regulatory and geopolitical policies and other factors may adversely affect our business or may require us to modify our current business practices.

Approximately 46% of our pro forma sales for the year ended December 31, 2017 were earned in international markets. We are exposed to risks of changes in U.S. policy for companies having business operations outside the United States, which could have a material adverse effect on our business, results of operations, and financial condition.

**We use foreign suppliers and manufacturing facilities for a significant portion of our raw materials and finished products, which poses risks to our business operations.**

A majority of our products sold were produced by and purchased from independent manufacturers primarily located in Asia and Eastern Europe, with substantially all of the remainder produced by our manufacturing facility located in Utah. Although no single supplier and no one country controls a majority of our production needs, any of the following could materially and adversely affect our ability to produce or deliver our products and, as a result, have a material adverse effect on our business, financial condition, and results of operations:

- political or labor instability in countries where our facilities, contractors, and suppliers are located;
- political or military conflict, which could cause a delay in the transportation of raw materials and products to us and an increase in transportation costs;
- heightened terrorism security concerns, which could subject imported or exported goods to additional, more frequent or more lengthy inspections, leading to delays in deliveries or impoundment of goods for extended periods or could result in decreased scrutiny by customs officials for counterfeit goods, leading to lost sales, increased costs for our anti-counterfeiting measures and damage to the reputation of our brands;
- disease epidemics and health-related concerns, such as the H1N1 virus, bird flu, SARS, mad cow, and hoof-and-mouth disease outbreaks in recent years, which could result in closed factories, reduced workforces, scarcity of raw materials, and scrutiny or embargo of our goods produced in infected areas;
- imposition of regulations and quotas relating to imports and our ability to adjust timely to changes in trade regulations, which, among other things, could limit our ability to produce products in cost-effective countries that have the labor and expertise needed;
- imposition of duties, taxes and other charges on imports; and
- imposition or the repeal of laws that affect intellectual property rights.

**Our business is subject to foreign, national, state, and local laws and regulations for environmental, employment, safety, and other matters. The costs of compliance with, or the violation of, such laws and regulations by us or by independent suppliers who manufacture products for us could have an adverse effect on our business, results of operations and financial condition.**

Numerous governmental agencies in the United States and in other countries in which we have operations, enforce comprehensive national, state, and local laws and regulations on a wide range of environmental, employment, health, safety, and other matters. We could be adversely affected by costs of compliance or violations of those laws and regulations. In addition, the costs of products purchased by us from independent contractors could increase due to the costs of compliance by those contractors. Further, violations of such laws and regulations could affect the availability of inventory, thereby affecting our net sales.

**Changes in governmental regulation, legislation or public opinion regarding the manufacture and sale of bullets, or the possession and use of firearms and ammunition, could adversely affect our Sierra segment and overall financial results.**

The manufacture and sale of bullets by our Sierra segment, and the possession and use of firearms and ammunition by our customers, is subject to significant governmental regulation. We hold all licenses necessary for the legal manufacture and sale of our bullets. However, federal, state or local legislatures may enact further legislation regarding the manufacture and sale of bullets, and the possession and use of firearms and ammunition by our customers, such as point-of-sale background checks, age and other restrictions on ammunition purchases or further licensing of ammunition dealers. Such legislation, if enacted, could materially and adversely affect the sale of bullets that we manufacture.

The manufacture and sale of bullets, and the possession and use of firearms and ammunition, is also the subject of significant public interest and debate. If public opinion should worsen, it may lead to boycotts of certain of our products and decreased demand for the bullets and other products we manufacture by consumers and the other constituencies with which we deal, including suppliers, distributors and retailers, all of which could be a catalyst for potentially adverse reactions from our shareholders.

We cannot assure you that governmental regulation, legislation or public opinion regarding the manufacture and sale of bullets, or the possession and use of firearms and ammunition, will not become more restrictive or worsen in the future. We also cannot assure you that any such negative public opinion relating to our Sierra segment would not affect our Black Diamond segment, nor can we assure you that any such changes in governmental regulation, legislation or public opinion will not have a material adverse effect on our business, results of operations or financial condition.

**We may incur significant costs in order to comply with environmental remediation obligations.**

Environmental laws also impose obligations on various entities to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Accordingly, we may be liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by us, is a landfill or other location where we have disposed wastes, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. Given the nature of the past industrial operations conducted by us and others at these properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where an environmental site assessment has been conducted. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to additional remediation liabilities that may have a material adverse effect upon our business, results of operations or financial condition.

## Risks Related to our Business

**There are significant risks associated with acquiring and integrating businesses.**

An element of our general growth strategy is the acquisition of or investment in businesses and assets that will diversify our current business, increase size, expand our geographic scope of operations and otherwise offer growth opportunities. We may not be able to successfully identify attractive acquisition or investment opportunities, obtain financing for acquisitions, make acquisitions on satisfactory terms, or successfully acquire and/or integrate identified targets. In identifying, evaluating and selecting a target business or assets for a potential acquisition or investment, we expect to encounter intense competition from other entities, including blank check companies, private equity groups, venture capital funds, leveraged buyout funds, and operating businesses seeking strategic acquisitions. Many of these entities are well-established and have extensive experience identifying and effecting business combinations directly or through affiliates. Moreover, many of these competitors possess greater financial, technical, human and other resources than us which will give them a competitive advantage in pursuing the acquisition of certain target businesses.

Our ability to implement our acquisition strategy is also subject to other risks and costs, including:

- loss of key employees, customers or suppliers of acquired businesses;
- diversion of management’s time and attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers;
- our ability to secure necessary financing;
- our ability to realize operating efficiencies, synergies, or other benefits expected from an acquisition;
- risks associated with entering markets in which we have limited or no experience;
- risks associated with our ability to execute successful due diligence; and
- assumption of contingent or undisclosed liabilities of acquisition targets.

Any of the above risks could have a material adverse effect on the market price of our common stock and our business, financial condition and results of operations.

**Our previously announced growth strategy may negatively impact our business, financial condition and results of operations.**

The Company announced that it is seeking to invest in high-quality, durable, cash flow-producing assets potentially unrelated to the outdoor industry in order to diversify our business and potentially monetize our substantial net operating losses as part of our previously announced growth strategy. There can be no assurance as to the outcome of the growth strategy, that any particular acquisition or investment opportunities will be consummated, that any transaction will occur, or that our net operating losses will be monetized. In addition, our growth strategy may create perceived uncertainties as to our future direction and may result in the loss of employees, customers or business partners.

**Turmoil across various sectors of the financial markets may negatively impact the Company's business, financial condition, and/or operating results as well as our ability to effectively execute our growth strategy.**

Various sectors of the credit markets and the financial services industry have experienced a period of unprecedented turmoil and upheaval characterized by disruption in the credit markets and availability of credit and other financing, the failure, bankruptcy, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. While the future recurrence of these events cannot be predicted, they may have a material adverse effect on our ability to obtain financing necessary to effectively execute acquisitions, the ability of our customers and suppliers to continue to operate their businesses or the demand for our products, which could have a material adverse effect on the market price of our common stock and our business, financial condition, and results of operations.

**We may not be able to adequately manage our growth.**

We have expanded, and are seeking to continue to expand, our business. This growth has placed significant demands on our management, administrative, operating, and financial resources as well as our manufacturing capacity capabilities. The continued growth of our customer base, the types of products offered and the geographic markets served can be expected to continue to place a significant strain on our resources. Personnel qualified in the production and marketing of our products are difficult to find and hire, and enhancements of information technology systems to support growth are difficult to implement. Our future performance and profitability will depend in large part on our ability to attract and retain additional management and other key personnel, as well as our ability to increase and maintain our manufacturing capacity capabilities to meet the needs of our current and future customers. Any failure to adequately manage our growth could have a material adverse effect on the market price of our common stock and our business, financial condition, and results of operations.

**The Company's existing credit agreement contains financial and restrictive covenants that may limit our ability to operate our business.**

The agreement governing the Company's credit facility contains, and any of its other future debt agreements may contain, covenant restrictions that limit its ability to operate its business, including restrictions on its ability to:

- incur debt (including secured debt) or issue guarantees;
- grant liens on its assets;
- sell substantially all of our assets; and
- enter into certain mergers or consolidations or make certain acquisitions.

In addition, the Company's credit facility contains other affirmative and negative covenants, including the requirements to maintain a minimum level of earnings before interest, tax, depreciation, and amortization, tangible net worth and asset coverage. The Company's ability to comply with these covenants is dependent on its future performance, which will be subject to many factors, some of which are beyond its control, including prevailing economic conditions. Any failure to comply with the restrictions of our credit facility or any subsequent financing agreements may result in an event of default. An event of default may allow the creditors, if the agreements so provide, to accelerate the related debt as well as any other debt to which a cross-acceleration or cross-default provision applies. In addition, the lender under our credit facility may be able to terminate any commitments it had made to supply us with further funds. If we default on the financial covenants in our credit facility, our lender could exercise all rights and remedies available to it, which could have a material adverse effect on our business, results of operations and financial condition.

As a result of these covenants, the Company's ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and the Company may be prevented from engaging in transactions or making acquisitions of a business that might otherwise be beneficial to it.

**Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.**

Borrowings under the revolving portion of our credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows would decrease.

**Currency devaluations or fluctuations may significantly increase our expenses and affect our results of operations as well as the carrying value of international assets on our balance sheet, especially where the currency is subject to intense political and other outside pressures, such as in the case of the Euro, Canadian Dollar and Great British Pound.**

While we transact business predominantly in U.S. dollars and most of our revenues are collected in U.S. dollars, a substantial portion of our assets, revenues, costs, and earnings are denominated in other currencies, such as the Euro, Canadian dollar, and Great British pound. Changes in the relation of these and other currencies to the U.S. dollar will affect the carrying value of our international assets as well as our sales and profitability and could result in exchange losses. For example, a devaluation of the Euro would negatively impact the carrying value of our assets in Europe and our results of operations because the earnings and assets in Europe would be reduced when translated into U.S. dollars.

Additionally, as the Company has substantial operations and assets located outside the United States, foreign operations expose us to foreign currency devaluations or fluctuations that could have a material adverse impact on our business, results of operations and financial condition based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar, both for purposes of actual conversion and financial reporting purposes. The impact of future exchange rate devaluations or fluctuations on our results of operations cannot be accurately predicted. There can be no assurance that the U.S. dollar foreign exchange rates will be stable in the future or that fluctuations in financial or foreign markets will not have a material adverse effect on our business, results of operations, and financial condition.

**Compliance with changing laws, regulations and standards of corporate governance and public disclosure may result in additional expenses.**

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 (the "Sarbanes Oxley Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act, new Securities and Exchange Commission regulations and NASDAQ rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations, and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

**We will face particular challenges in maintaining and reporting on our internal control over financial reporting.**

Section 404 of the Sarbanes-Oxley Act requires that we evaluate and report on our system of internal control over financial reporting and requires that we have our internal control over financial reporting audited. If we fail to maintain adequate internal controls, we could be subject to regulatory scrutiny, civil or criminal penalties and/or stockholder litigation. Any inability to provide reliable financial reports could harm our business and the trading price of our common stock. Section 404 of the Sarbanes-Oxley Act also requires that our independent registered public accounting firm report on the effectiveness of the Company's internal control over financial reporting. In addition, acquisition targets may not be in compliance with the provisions of the Sarbanes-Oxley Act regarding adequacy of their internal controls. The development of the internal controls of any such entity to achieve compliance with the Sarbanes-Oxley Act may increase the time and costs necessary to complete any such acquisition.

If we identify any material weaknesses or significant deficiencies in our internal control over financial reporting, we may need to take costly steps to implement improved controls and may be subject to sanctions for failure to comply with the requirements of the Sarbanes-Oxley Act. Such remedial costs or sanctions could have a material adverse effect on our results of operations and financial condition. Further, we would be required to disclose any material weakness in internal control over financial reporting, and we would receive an adverse opinion on our internal control over financial reporting from our independent auditors. These factors could cause investors to lose confidence in our reported financial information and could have a negative effect on the trading price of our stock.

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

There have been an increasing number of global cyber security incidents affecting companies, which have caused operational failures or compromised sensitive or confidential corporate and personal data. Although we do not believe our systems are at a greater risk of cyber security incidents than other companies that are comparable to ours, such cyber security incidents may result in the loss or compromise of customer, financial, or operational data; disruption of billing, collections, or normal operating activities; disruption of electronic monitoring and control of operational systems; and delays in financial reporting and other management functions, and our acquisition activities could increase such risk. Possible impacts associated with a cyber security incident may include, among other things, remediation costs related to lost, stolen, or compromised data; repairs to data processing systems; increased cyber security protection costs; reputational damage; and adverse effects on our compliance with privacy and other laws and regulations that are applicable to us.

**Interruptions in the proper functioning of our information systems or other issues with our enterprise resource planning systems could cause disruption to our operations.**

We heavily rely on our information systems to manage our various business operations, including our ordering, pricing, billing, inventory management, supply chain, accounting and other processes. Our systems may be subject to damage or interruption from a variety of sources, including power outages, computer and telecommunications failures, computer viruses, cyber security breaches, vandalism, severe weather conditions, catastrophic events, terrorism, and human error. Although we do maintain disaster recovery measures in place which we believe to be adequate, we cannot assure you that our disaster recovery measures can account for all eventualities. If our systems are damaged, fail to function properly, or otherwise become compromised or unavailable, we may incur substantial costs to repair or replace them, and we may experience loss of critical data and interruptions or delays in our ability to perform critical functions, which could adversely affect our business, results of operations and financial condition.

Our information technology systems require periodic modifications, upgrades, and replacement that subject us to costs and risks, including potential disruption to our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel or outside firms to implement and operate existing or new systems, and other risks and costs of delays or difficulties in transitioning to new or modified systems or of integrating new or modified systems into our current systems. In addition, challenges implementing new or modified technology systems may cause disruptions in our business operations and have an adverse effect on our business operations if not anticipated and appropriately mitigated.

**Our Board of Directors and executive officers have significant influence over our affairs.**

The members of our Board of Directors and our executive officers, which includes Mr. Warren B. Kanders, beneficially own approximately 29% of our outstanding common stock as of March 7, 2018. As a result, our Board of Directors and executive officer, to the extent they vote their shares in a similar manner, have influence over our affairs and could exercise such influence in a manner that is not in the best interests of our other stockholders, including by attempting to delay, defer or prevent a change of control transaction that might otherwise be in the best interests of our stockholders.

**We may be unable to realize the benefits of our net operating losses and tax credit carryforwards.**

Net operating losses ("NOLs") may be carried forward to offset federal and state taxable income in future years and eliminate income taxes otherwise payable on such taxable income, subject to certain adjustments. Based on current federal corporate income tax rates, our NOL and other carryforwards could provide a benefit to us, if fully utilized, of significant future tax savings. However, our ability to use these tax benefits in future years will depend upon the amount of our otherwise taxable income. If we do not have sufficient taxable income in future years to use the tax benefits before they expire, we will lose the benefit of these NOL carryforwards permanently.

Additionally, if we underwent an ownership change, the NOL carryforward limitations would impose an annual limit on the amount of the taxable income that may be offset by our NOL generated prior to the ownership change. If an ownership change were to occur, we may be unable to use a significant portion of our NOL to offset taxable income. In general, an ownership change occurs when, as of any testing date, the aggregate of the increase in percentage points of the total amount of a corporation's stock owned by one or more "5-percent shareholders" within the meaning of Section 382 of the Internal Revenue Code ("Code") whose percentage ownership of the stock has increased as of such date over the aggregate of the lowest percentage of the stock owned by such 5-percent shareholder at any time during the three-year period preceding such date is more than 50 percentage points. In general, persons who own 5% or more of a corporation's stock are 5-percent shareholders, and all stock owned by persons who are not 5-percent shareholders is treated as owned by one 5-percent shareholder. The issuance of a large number of shares of common stock in connection with any acquisitions could result in a limitation of the use of our NOLs.

Further, our certificate of incorporation provides for blank check preferred stock, which allows the Board to issue preferred stock at any time with rights and designations set forth by the Board. Section 382 of the Code generally excludes preferred stock when calculating ownership percentages as they relate to our NOLs if the preferred stock satisfies all of the following criteria: it is not entitled to vote, it is limited and preferred as to dividends and does not participate in corporate growth to any significant extent, it has redemption and liquidation rights which do not exceed the issue price of such stock (except for a reasonable redemption or liquidation premium), and it is not convertible into another class of stock. Our Board may authorize and issue preferred stock that does not meet these criteria, and such preferred stock would count towards determining ownership change under Section 382 of the Code. Therefore the issuance of any preferred stock could increase the likelihood of a limitation of the use of our NOLs.

Moreover, if a corporation experiences an ownership change and does not satisfy the continuity of business enterprise, or COBE, requirement (which generally requires that the corporation continue its historic business or use a significant portion of its historic business assets in a business for the two-year period beginning on the date of the ownership change), it cannot, subject to certain exceptions, use any NOL from a pre-change period to offset taxable income in post-change years.

The actual ability to utilize the tax benefit of any existing NOLs will be subject to future facts and circumstances with respect to meeting the above described COBE requirements at the time NOLs are being utilized on a tax return. The realization of NOLs and the recognition of asset and valuation allowances for deferred taxes require management to make estimates and judgments about the Company's future profitability which are inherently uncertain. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. If, in the opinion of management, it becomes more likely than not that some portion or all of the deferred tax assets will not be realized, deferred tax assets would be reduced by a valuation allowance and any such reduction could have a material adverse effect on the financial condition of the Company.

The amount of NOL and tax credit carryforwards that we have claimed has not been audited or otherwise validated by the U.S. Internal Revenue Service (the "IRS"). The IRS could challenge our calculation of the amount of our NOL or our determinations as to when a prior change in ownership occurred, and other provisions of the Code may limit our ability to carry forward our NOL to offset taxable income in future years. If the IRS were successful with respect to any such challenge, the potential tax benefit of the NOL carryforwards to us could be substantially reduced.

**Certain protective measures implemented by us to preserve our NOL may not be effective or may have some unintended negative effects.**

On July 24, 2003, at our Annual Meeting of Stockholders, our stockholders approved an amendment (the "Amendment") to our Amended and Restated Certificate of Incorporation to restrict certain acquisitions of our securities in order to help assure the preservation of our NOL. The Amendment generally restricts direct and indirect acquisitions of our equity securities if such acquisition will affect the percentage of the Company's capital stock that is treated as owned by a "5% stockholder." Additionally, on February 7, 2008, our Board of Directors approved a rights agreement which is designed to assist in limiting the number of 5% or more owners and thus reduce the risk of a possible "change of ownership" under Section 382 of the Code.

Although the transfer restrictions imposed on our capital stock and the rights agreement are intended to reduce the likelihood of an impermissible ownership change, there is no guarantee that such protective measures would prevent all transfers that would result in an impermissible ownership change. These protective measures also will require any person attempting to acquire a significant interest in us to seek the approval of our Board of Directors. This may have an "anti-takeover" effect because our Board of Directors may be able to prevent any future takeover. Similarly, any limits on the amount of capital stock that a stockholder may own could have the effect of making it more difficult for stockholders to replace current management. Additionally, because protective measures implemented by us to preserve our NOL will have the effect of restricting a stockholder's ability to acquire our common stock, the liquidity and market value of our common stock might suffer.

**The loss of any member of our senior management or certain other key executives could significantly harm our business.**

Our ability to maintain our competitive position is dependent to a large degree on the efforts and skills of our senior management team, including Warren B. Kanders. If we were to lose the services of any member of our senior management, our business may be significantly impaired. In addition, many of our senior executives have strong industry reputations, which aid us in identifying acquisition and borrowing opportunities, and having such opportunities brought to us. The loss of the services of these key personnel could materially and adversely affect our operations because of diminished relationships with lenders, existing and prospective tenants, property sellers and industry personnel.

**Our Board of Directors may change significant corporate policies without stockholder approval.**

Our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations, will be determined by our Board of Directors. These policies may be amended or revised at any time and from time to time at the discretion of the Board of Directors without a vote of our stockholders. In addition, the Board of Directors may change our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements. A change in these policies could have an adverse effect on our financial condition, results of operations, cash flow, per share trading price of our common stock and ability to satisfy our debt service obligations and to pay dividends to our stockholders.

**Compensation awards to our management may not be tied to or correspond with our improved financial results or share price.**

The compensation committee of our Board of Directors is responsible for overseeing our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive compensation and equity-based compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on any number of factors. As a result, compensation awards may not be tied to or correspond with improved financial results for the Company or the share price of our common stock.

## Risks Related to our Common Stock

**Our Amended and Restated Certificate of Incorporation authorizes the issuance of shares of preferred stock.**

Our Amended and Restated Certificate of Incorporation provides that our Board of Directors will be authorized to issue from time to time, without further stockholder approval, up to 5,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. We may issue additional preferred stock in ways which may delay, defer or prevent a change in control of the Company without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

**We do not expect to pay dividends on our common stock in the foreseeable future.**

Although our stockholders may receive dividends if, as and when declared by our Board of Directors, we do not intend to pay dividends on our common stock in the foreseeable future. Therefore, you should not purchase our common stock if you need immediate or future income by way of dividends from your investment. In addition, upon an event of default under our credit facility, we are prohibited from declaring or paying any dividends on our common stock or generally making other distributions to our stockholders.

**The price of our common stock has been and is expected to continue to be volatile, which could affect a stockholder's return on investment.**

There has been significant volatility in the stock market and in particular in the market price and trading volume of securities, which has often been unrelated to the performance of the companies. The market price of our common stock has been subject to significant fluctuations, and we expect it to continue to be subject to such fluctuations for the foreseeable future. We believe the reasons for these fluctuations include, in addition to general market volatility, the relatively thin level of trading in our stock, and the relatively low public float. Therefore, variations in financial results, announcements of material events, technological innovations or new products by us or our competitors, our quarterly operating results, changes in general conditions in the economy or the health care industry, other developments affecting us or our competitors or general price and volume fluctuations in the market are among the many factors that could cause the market price of our common stock to fluctuate substantially.

**Shares of our common stock have been thinly traded in the past.**

The trading volume of our common stock has not been significant, and there may not be an active trading market for our common stock in the future. As a result of the thin trading market or "float" for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our common stock is less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In the absence of an active public trading market, an investor may be unable to liquidate his investment in our common stock. Trading of a relatively small volume of our common stock may have a greater impact on the trading price for our stock than would be the case if our public float were larger. We cannot predict the prices at which our common stock will trade in the future.

**The sale of a substantial amount of our common stock in the public market could adversely affect the prevailing market price of our common stock.**

We have outstanding an aggregate of 30,041,265 shares of our common stock as of March 7, 2018. This includes 7,835,284 shares of common stock that are beneficially owned by Mr. Kanders, our Chairman of the Board, of which he has 5,919,017 hypothecated and/or pledged as security for loans from financial institutions, which hypothecation has been in place for over ten years, and that may be sold by such financial institutions in the event of a foreclosure of these loans. The sale of a significant amount of shares at any given time, or the perception that such sales could occur, including sales of the shares beneficially owned by Mr. Kanders, could adversely affect the prevailing market price of our common stock.

**We may issue a substantial amount of our common stock in the future, which could cause dilution to current investors and otherwise adversely affect our stock price.**

We may issue additional shares of common stock as consideration for such acquisition. These issuances could be significant. To the extent that we make acquisitions and issue our shares of common stock as consideration, your equity interest in us will be diluted. Any such issuance will also increase the number of outstanding shares of common stock that will be eligible for sale in the future. Persons receiving shares of our common stock in connection with these acquisitions may be more likely to sell off their common stock, which may influence the price of our common stock. In addition, the potential issuance of additional shares in connection with anticipated acquisitions could lessen demand for our common stock and result in a lower price than might otherwise be obtained. We may issue common stock in the future for other purposes as well, including in connection with financings, for compensation purposes, in connection with strategic transactions or for other purposes. The issuance of a large number of shares of common stock in connection with an acquisition could also have a negative effect on our ability to use our NOLs.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our corporate headquarters, as well as our primary research and manufacturing facility, is located in a facility owned by the Company in Salt Lake City, Utah. In addition, at December 31, 2017, the Company and its subsidiaries lease or own facilities throughout the U.S. and Europe. In general, our properties are well maintained, considered adequate and being utilized for their intended purposes.

The following table identifies and provides certain information regarding our principal facilities:

| Activity | Location | Owned/Leased |
|---|---|---|
| **Black Diamond Segment** | | |
| Corporate Headquarters: | Salt Lake City, Utah | Owned |
| Black Diamond U.S. Distribution and Manufacturing Facilities: | Salt Lake City, Utah | Leased/Owned |
| Black Diamond European Sales and Marketing Office: | Innsbruck, Austria | Leased |
| PIEPS Sales and Marketing Office: | Lebring, Austria | Leased |
| **Sierra Segment** | | |
| Sierra U.S. Distribution and Manufacturing Facilities: | Sedalia, Missouri | Owned |

**ITEM 3. LEGAL PROCEEDINGS**

**Legal Proceedings**

The Company is involved in various legal disputes and other legal proceedings that arise from time to time in the ordinary course of business. Based on currently available information, the Company does not believe that the disposition of any of the legal disputes the Company or its subsidiaries is currently involved in will have a material adverse effect upon the Company’s consolidated financial condition, results of operations or cash flows. It is possible that, as additional information becomes available, the impact on the Company of an adverse determination could have a different effect.

**Litigation**

The Company is involved in various lawsuits arising from time to time that the Company considers ordinary routine litigation incidental to its business. Amounts accrued for litigation matters represent the anticipated costs (damages and/or settlement amounts) in connection with pending litigation and claims and related anticipated legal fees for defending such actions, which legal fees are expensed as incurred. The costs are accrued when it is both probable that a liability has been incurred and the amount can be reasonably estimated. The accruals are based upon the Company’s assessment, after consultation with counsel (if deemed appropriate), of probable loss based on the facts and circumstances of each case, the legal issues involved, the nature of the claim made, the nature of the damages sought and any relevant information about the plaintiffs and other significant factors that vary by case. When it is not possible to estimate a specific expected cost to be incurred, the Company evaluates the range of probable loss and records the minimum end of the range. Based on current information, the Company believes that the ultimate conclusion of the various pending litigations of the Company, in the aggregate, will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

### Product Liability

As a consumer goods manufacturer and distributor, the Company faces the risk of product liability and related lawsuits involving claims for substantial money damages, product recall actions and higher than anticipated rates of warranty returns or other returns of goods. The Company is therefore vulnerable to various personal injury and property damage lawsuits relating to its products and incidental to its business.

Based on current information, there are no pending product liability claims and lawsuits of the Company, which the Company believes in the aggregate, will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

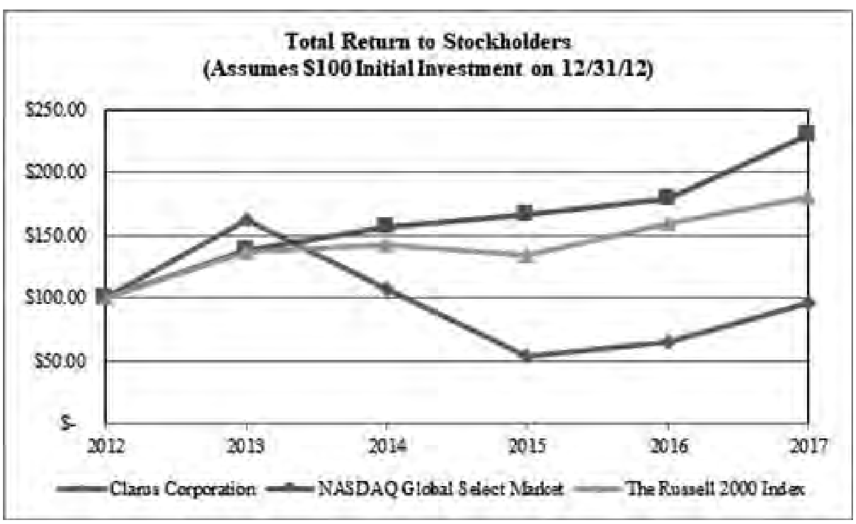
Our common stock is listed for trading on NASDAQ Global Select Market under the trading symbol "CLAR". The following table sets forth the reported high and low sale prices for the periods indicated:

| | High | Low |
|---|---|---|
| **Year ended December 31, 2017** | | |
| First Quarter | $ 6.23 | $ 5.00 |
| Second Quarter | $ 7.10 | $ 5.10 |
| Third Quarter | $ 7.80 | $ 5.20 |
| Fourth Quarter | $ 8.00 | $ 6.75 |
| | | |
| **Year ended December 31, 2016** | | |
| First Quarter | $ 5.19 | $ 3.85 |
| Second Quarter | $ 4.61 | $ 3.93 |
| Third Quarter | $ 5.21 | $ 4.11 |
| Fourth Quarter | $ 6.85 | $ 4.75 |

**Performance Graph**

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on our common stock to the cumulative total return of the NASDAQ Global Select Market Composite and the Russell 2000 Index for the period commencing on December 31, 2012 and ending on December 31, 2017 (the "Measuring Period"). The graph assumes that the value of the investment in our common stock and the indexes was $100 on December 31, 2012. The yearly change in cumulative total return is measured by dividing (1) the sum of (i) the cumulative amount of dividends for the Measuring Period, assuming dividend reinvestment, and (ii) the change in share price between the beginning and end of the Measuring Period, by (2) the share price at the beginning of the Measuring Period.

Historical stock price performance should not be relied on as indicative of future stock price performance.




**Total Return Analysis**

| | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 |
|---|---|---|---|---|---|---|
| **Clarus Corporation** | $ 100.00 | $ 162.56 | $ 106.71 | $ 53.90 | $ 65.24 | $ 95.73 |
| **The Russell 2000 Index** | $ 100.00 | $ 137.00 | $ 141.84 | $ 133.74 | $ 159.78 | $ 180.79 |
| **NASDAQ Global Select Market** | $ 100.00 | $ 138.00 | $ 156.90 | $ 166.49 | $ 179.13 | $ 230.05 |

**Stockholders**

On March 7, 2018, the last reported sales price for our common stock was $6.85 per share. As of March 7, 2018, there were 89 holders of record of our common stock.

**Dividends**

We currently anticipate that we will retain all future earnings for use in our business and do not anticipate that we will pay any cash dividends in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our results of operations, capital requirements, general business conditions, contractual restrictions on payment of dividends, if any, legal and regulatory restrictions on the payment of dividends, and other factors our Board of Directors deems relevant.

**Recent Sales of Unregistered Securities**

None.

**Recent Purchases of our Registered Equity Securities**

On November 9, 2015, the Company announced that its Board of Directors authorized a stock repurchase program that allows the repurchase of up to $30,000,000 of the Company's outstanding common stock. No repurchases of shares of the Company's common stock occurred during the three months ended December 31, 2017.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth certain information regarding our equity plans as of December 31, 2017:

| Plan Category | (A) Number of securities to be issued upon exercise of outstanding, warrants and rights | (B) Weighted-average exercise price of outstanding options, warrants and rights | (C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) |
|---|---|---|---|
| Equity compensation plans approved by security holders (1) | 2,208,500 | $ 9.09 | 6,153,461 |
| Equity compensation plans not approved by security holders (2) (3) | 800,000 | $ 8.75 | - |
| Total | 3,008,500 | $ 9.00 | 6,153,461 |

(1) Consists of stock options and restricted stock awards issued and issuable under the 2005 Stock Incentive Plan and the 2015 Stock Incentive Plan.

(2) Includes stock options granted to the Company's Executive Chairman Warren B. Kanders on December 23, 2002 to purchase 400,000 shares of common stock, having an exercise price of $7.50 per share.

(3) Includes stock options granted to the Company's Executive Chairman Warren B. Kanders on December 23, 2002 to purchase 400,000 shares of common stock, having an exercise price of $10.00 per share.

### ITEM 6. SELECTED FINANCIAL DATA

Our selected financial information set forth below have been derived from our audited consolidated financial statements and should be read in conjunction with our consolidated financial statements, including the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Item 7 of Part II of this Annual Report on Form 10-K. On July 23, 2014, the Company completed the sale of certain assets of Gregory Mountain Products. On October 7, 2015, the Company completed the sale of POC. The activities of Gregory Mountain Products and POC have been segregated and reported as discontinued operations for all periods presented. On August 21, 2017, the Company acquired Sierra Bullets. See Note 2. Acquisition to the notes to consolidated financial statements.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (in thousands, except per share amounts) | | | | |
| **Statement of Operations Data:** | | | | | |
| Sales | $ 170,687 | $ 148,189 | $ 155,266 | $ 158,303 | $ 141,120 |
| Gross profit | 53,810 | 43,684 | 54,246 | 57,629 | 47,334 |
| Loss from continuing operations | (673) | (8,978) | (88,106) | (9,618) | (10,675) |
| Net (loss) income | (673) | (8,978) | (77,542) | 14,007 | (5,870) |
| | | | | | |
| Loss from continuing operations per share: | | | | | |
| Basic | $ (0.02) | $ (0.30) | $ (2.70) | $ (0.30) | $ (0.33) |
| Diluted | (0.02) | (0.30) | (2.70) | (0.30) | (0.33) |
| | | | | | |
| Income from discontinued operations per share: | | | | | |
| Basic | - | - | 0.32 | 0.73 | 0.15 |
| Diluted | - | - | 0.32 | 0.73 | 0.15 |
| | | | | | |
| Net (loss) income per share: | | | | | |
| Basic | (0.02) | (0.30) | (2.38) | 0.43 | (0.18) |
| Diluted | (0.02) | (0.30) | (2.38) | 0.43 | (0.18) |
| | | | | | |
| Weighted average common shares outstanding for earnings per share: | | | | | |
| Basic | 30,022 | 30,397 | 32,600 | 32,567 | 32,007 |
| Diluted | 30,022 | 30,397 | 32,600 | 32,567 | 32,007 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Balance Sheet Data:** | | | | | |
| Total current assets | $ 99,444 | $ 166,945 | $ 180,581 | $ 158,560 | $ 106,381 |
| Total assets | 207,449 | 210,457 | 226,792 | 315,540 | 321,423 |
| | | | | | |
| Long-term obligations, net of current | 24,683 | 9,042 | 30,914 | 25,807 | 44,914 |
| Total liabilities | 44,467 | 49,649 | 52,360 | 58,347 | 74,173 |
| | | | | | |
| Total stockholders' equity | 162,982 | 160,808 | 174,432 | 257,193 | 247,250 |

The gross profit for the year ended December 31, 2017, included $2,098 related to the sale of Sierra inventory that was recorded at fair value in purchase accounting. The remaining amount of inventory that was recorded at fair value in purchase accounting, which totals $1,049, is expected to be sold during the first quarter of 2018.

The loss from continuing operations for the year ended December 31, 2015, included an impairment of goodwill of $29,507 and the recognition of a valuation allowance on the Company's deferred tax assets of $48,858.

The gross profit for the year ended December 31, 2013, included cost of sales of $1,541 related to the voluntary recall of all of the PIEPS VECTOR avalanche transceivers.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

Please note that in this Annual Report on Form 10-K we may use words such as "appears," "anticipates," "believes," "plans," "expects," "intends," "future," and similar expressions which constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are made based on our expectations and beliefs concerning future events impacting the Company and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Potential risks and uncertainties that could cause the actual results of operations or financial condition of the Company to differ materially from those expressed or implied by forward-looking statements in this Annual Report on Form 10-K include, but are not limited to, the overall level of consumer spending on our products; general economic conditions and other factors affecting consumer confidence; disruption and volatility in the global capital and credit markets; the financial strength of the Company's customers; the Company's ability to implement its growth strategy, including its ability to organically grow each of its historical product lines; the ability of the Company to identify potential acquisition or investment opportunities as part of its acquisition strategy; the Company's ability to successfully execute its acquisition strategy or that any such strategy will result in the Company's future profitability; the Company's ability to successfully integrate Sierra Bullets, L.L.C.; changes in governmental regulation, legislation or public opinion relating to the manufacture and sale of bullets by our Sierra segment, and the possession and use of firearms and ammunition by our customers; the Company's exposure to product liability or product warranty claims and other loss contingencies; stability of the Company's manufacturing facilities and foreign suppliers; the Company's ability to protect patents, trademarks and other intellectual property rights; any breaches of, or interruptions in, our information systems; fluctuations in the price, availability and quality of raw materials and contracted products as well as foreign currency fluctuations; our ability to utilize our net operating loss carryforwards; and legal, regulatory, political and economic risks in international markets. More information on potential factors that could affect the Company's financial results can be found under Item 1A.—Risk Factors of this Annual Report on Form 10-K. All forward-looking statements included in this Annual Report on Form 10-K are based upon information available to the Company as of the date of this Annual Report on Form 10-K, and speak only as the date hereof. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K.

### Overview

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

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

Clarus Corporation, incorporated in Delaware in 1991, acquired Black Diamond Equipment, Ltd. (which may be referred to as "Black Diamond Equipment" or "BDEL") and Gregory Mountain Products, LLC (which may be referred to as "Gregory Mountain Products", "Gregory" or "GMP") in May 2010 and changed its name to Black Diamond, Inc., in January 2011. In July 2012, we acquired POC Sweden AB and its subsidiaries (collectively, "POC") and in October 2012, we acquired PIEPS Holding GmbH and its subsidiaries (collectively, "PIEPS").

On July 23, 2014, the Company completed the sale of certain assets to Samsonite LLC comprising Gregory Mountain Product's business. On October 7, 2015, the Company sold its equity interests in POC.

On August 14, 2017, the Company changed its name from Black Diamond, Inc. to Clarus Corporation and its stock ticker symbol from "BDE" to "CLAR" on the NASDAQ stock exchange. On August 21, 2017, the Company acquired Sierra Bullets, L.L.C. ("Sierra" or "Sierra Bullets").

**Critical Accounting Policies and Use of Estimates**

Management's discussion of our financial condition and results of operations is based on the consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of the consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. We continually evaluate our estimates and assumptions including those related to derivatives, revenue recognition, income taxes and valuation of long-lived assets, goodwill and other intangible assets. We base our estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

We believe the following critical accounting policies include the more significant estimates and assumptions used in the preparation of our consolidated financial statements. Our accounting policies are more fully described in Note 1 of our consolidated financial statements.

- We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill. We engage independent third-party valuation specialists to assist us in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include but are not limited to the projected financial information related to each individual asset, particularly forecasted revenue. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and thus, actual results may differ from estimates.

- We account for income taxes using the asset and liability method. The asset and liability method provides that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating loss and tax credit carryforwards. We may make assumptions, judgments and estimates in order to determine the future taxable income available to support the recoverability of deferred tax assets at a more-likley-than-not threshold. The sources of future taxable income include 1) future reversal of existing taxable temporary differences, 2) taxable income in carryback years if carryback is permitted, 3) future taxable income from future operations, and 4) tax planning strategies. The degree and subjectivity and judgment increases as the source of future taxable income becomes more inherently subjective. Our assumptions, judgments and estimates relative to the realizability of a deferred tax asset take into account predictions of the amount and category of expected future taxable income. Actual operating results and the underlying amount and category of income in future years could cause our current assumptions, judgments and estimates of recoverable net deferred taxes to be inaccurate. Changes in any of the assumptions, judgments and estimates mentioned above related to the realizability of deferred tax assets, could materially affect our financial position and results of operations.

- We make ongoing estimates of potential excess, close-out or slow moving inventory. We evaluate our inventory on hand considering our sales forecasts and historical experience to identify excess, close-out or slow moving inventory and make provisions as necessary to properly reflect inventory value at the lower of cost or net realizable value.

**Recent Accounting Pronouncements**

See "Recent Accounting Pronouncements" in Note 1 to the notes to consolidated financial statements.

**Results of Operations (In Thousands)**

***Consolidated Year Ended December 31, 2017 Compared to Consolidated Year Ended December 31, 2016***

The following presents a discussion of consolidated operations for the year ended December 31, 2017, compared with the consolidated year ended December 31, 2016:

| | Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Sales | | |
| Domestic sales | $ 88,603 | $ 76,079 |
| International sales | 82,084 | 72,110 |
| Total sales | 170,687 | 148,189 |
| | | |
| Cost of goods sold | 116,877 | 104,505 |
| Gross profit | 53,810 | 43,684 |
| | | |
| Operating expenses | | |
| Selling, general and administrative | 56,295 | 49,936 |
| Restructuring charge | 160 | 1,395 |
| Merger and integration | 82 | - |
| Transaction costs | 2,088 | 290 |
| Arbitration award | - | (1,967) |
| | | |
| Total operating expenses | 58,625 | 49,654 |
| | | |
| Operating loss | (4,815) | (5,970) |
| | | |
| Other (expense) income | | |
| Interest expense, net | (1,288) | (2,876) |
| Other, net | 343 | 533 |
| | | |
| Total other expense, net | (945) | (2,343) |
| | | |
| Loss before income tax | (5,760) | (8,313) |
| Income tax (benefit) expense | (5,087) | 665 |
| Net loss | $ (673) | $ (8,978) |

*Sales*

Consolidated sales increased $22,498, or 15.2%, to $170,687 during the year ended December 31, 2017, compared to consolidated sales of $148,189 during the year ended December 31, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed $10,356 in sales during the year ended December 31, 2017. The remaining increase in sales was attributable to an increase in the quantity of new and existing climb, mountain and ski products sold during the period and an increase in sales of $1,701 due to the strengthening of foreign currencies against the U.S. dollar during the year ended December 31, 2017 compared to the prior period.

Consolidated domestic sales increased $12,524, or 16.5%, to $88,603 during the year ended December 31, 2017, compared to consolidated domestic sales of $76,079 during the year ended December 31, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed $7,437 in sales during the year ended December 31, 2017. The remaining increase in domestic sales was attributable to an increase in the quantity of new and existing climb and ski products sold during the period.

Consolidated international sales increased $9,974, or 13.8%, to $82,084 during the year ended December 31, 2017, compared to consolidated international sales of $72,110 during the year ended December 31, 2016. The increase in sales was partially attributable to the inclusion of Sierra, which contributed $2,919 in sales during the year ended December 31, 2017. The remaining increase in international sales was attributable to an increase in the quantity of new and existing climb, mountain and ski products sold during the period and an increase in sales of $1,701 due to the strengthening of foreign currencies against the U.S. dollar during the year ended December 31, 2017 compared to the prior period.

*Cost of Goods Sold*

Consolidated cost of goods sold increased $12,372, or 11.8%, to $116,877 during the year ended December 31, 2017, compared to consolidated cost of goods sold of $104,505 during the year ended December 31, 2016. The increase in cost of goods sold was partially attributable to the inclusion of Sierra, which accounted for $8,331 of such cost of goods sold, and included $2,098 related to the sale of inventory that was recorded at fair value in purchase accounting. The remaining amount of inventory that was recorded at fair value in purchase accounting, which totals $1,049, is expected to be sold during the first quarter of 2018. The remaining increase in cost of goods sold was attributable to an increase in the number of units sold and the mix of higher cost products sold.

*Gross Profit*

Consolidated gross profit increased $10,126, or 23.2%, to $53,810 during the year ended December 31, 2017, compared to consolidated gross profit of $43,684 during the year ended December 31, 2016. Consolidated gross margin was 31.5% during the year ended December 31, 2017, compared to a consolidated gross margin of 29.5% during the year ended December 31, 2016. Consolidated gross margin during the year ended December 31, 2017, increased compared to the prior year due to a favorable product mix in higher margin products and channel distribution, as well as lower costs related to the Company’s manufacturing activities that were transferred from China to the United States. Gross margin also benefited from the inclusion of Sierra; however, this benefit was offset by a decrease in gross margin of 1.2% due to the sale of inventory that was recorded at its preliminary fair value in purchase accounting during the year ended December 31, 2017.

*Selling, General and Administrative*

Consolidated selling, general and administrative expenses increased $6,359, or 12.7%, to $56,295 during the year ended December 31, 2017, compared to consolidated selling, general and administrative expenses of $49,936 during the year ended December 31, 2016. The increase in selling, general and administrative expenses was partially attributable to the inclusion of Sierra of $2,370, with the remaining increase being attributable to the Company’s investment in the brand related activities of sales, marketing and research and development in supporting its strategic initiatives around new product introduction and increasing brand equity. Stock compensation also increased $954 during the year ended December 31, 2017 compared to the prior year.

*Restructuring Charges*

Consolidated restructuring expense decreased $1,235, or 88.5%, to $160 during the year ended December 31, 2017, compared to consolidated restructuring expense of $1,395 during the year ended December 31, 2016. Restructuring expenses incurred during the year ended December 31, 2017, related to costs associated with the formal closure and liquidation of the Company’s Black Diamond Equipment manufacturing operations in Zhuhai, China. Restructuring expenses incurred during the year ended December 31, 2016, primarily related to benefits provided to employees who were terminated due to the Company’s reduction-in-force as part of its continued realignment of resources within the organization, costs associated with the move of the Company’s Black Diamond Equipment European office from Basel, Switzerland to Innsbruck, Austria, and costs associated with the formal closure and liquidation of the Company’s Black Diamond Equipment manufacturing operations in Zhuhai, China.

*Merger and Integration Costs*

Consolidated merger and integration expense increased to $82 during the year ended December 31, 2017 compared to consolidated merger and integration expense of $0 during the year ended December 31, 2016, which consisted of expenses related to the integration of Sierra.

*Transaction Costs*

Consolidated transaction expense increased $1,798, or 620.0%, to $2,088 during the year ended December 31, 2017, compared to consolidated transaction costs of $290 during the year ended December 31, 2016. The expenses during the year ended December 31, 2017 consisted of expenses related to the Company’s acquisition of Sierra. Upon the Company’s acquisition of Sierra, on August 21, 2017, the Company paid a fee in the amount of $1,000 to Kanders & Company, Inc. (“Kanders & Company”) in consideration of the significant support received by the Company from Kanders & Company in sourcing, structuring, performing due diligence and negotiating the acquisition. Mr. Warren B. Kanders, the Company’s Executive Chairman of the Board of Directors and a member of its Board of Directors, is the sole stockholder of Kanders & Company. The expenses during the year ended December 31, 2016 consisted of expenses related to the Company’s redeployment and diversification strategy.

*Arbitration Award*

During the year ended December 31, 2016, the Company received an arbitral award on agreed terms of $1,967, related to certain claims against the former owner of PIEPS associated with the voluntary recall of all the PIEPS VECTOR avalanche transceivers during the year ended December 31, 2013.

*Interest Expense, net*

Consolidated interest expense, net, decreased $1,588, or 55.2%, to $1,288 during the year ended December 31, 2017, compared to consolidated interest expense, net, of $2,876 during the year ended December 31, 2016. The decrease in interest expense, net, was primarily attributable to the repayment of the Company's 5% Senior Subordinated Notes during the three months ended March 31, 2017.

*Other, net*

Consolidated other, net, decreased $190, or 35.6%, to income of $343 during the year ended December 31, 2017, compared to consolidated other, net income of $533 during the year ended December 31, 2016. The decrease in other, net, was primarily attributable to a decrease in remeasurement gains recognized on the Company's foreign denominated accounts receivable and accounts payable, losses on mark-to-market adjustments on non-hedged foreign currency contracts and the absence of gains related to the sale of marketable securities during the year ended December 31, 2017. These losses were partially offset by gains related to recognition of cumulative translation adjustments due to the substantial liquidation of a foreign entity.

*Income Taxes*

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act made broad and complex changes to existing U.S. tax laws that impact the Company. Most notably, the Tax Act reduced the U.S. federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018. The Tax Act also provides for a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries ("Repatriation Tax") and the acceleration of depreciation for certain assets placed in service after September 27, 2017. The Tax Act also establishes prospective changes beginning in 2018 including the move to a modified territorial system, the repeal of the domestic production activity deduction, limitations on the deductibility of certain executive compensation, and other new international tax provisions. For tax years beginning after December 31, 2017, net operating losses generated will have an indefinite carry forward period but will only be able to offset 80% of taxable income each year. Lastly, as a result of the Tax Act, the corporate alternative minimum tax ("AMT") was repealed. Taxpayers with AMT credit carryovers in excess of their regular tax liability may have the credits refunded over multiple years from 2018 to 2022. However, AMT transactions, including refunds, are subject to sequestration by the Office of Management Budget.

The Company recognized the income tax effects of the Tax Act in its 2017 financial statements in accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance for the application of Accounting Standards Codification ("ASC") 740, Income Taxes, in the reporting period in which the Tax Act was signed into law. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

As a result of the Tax Act, the Company has recorded a discrete net tax benefit of $6,086 in the period ending December 31, 2017. The primary components are as follows:

Valuation allowances: For tax years beginning after December 31, 2017, net operating losses generated will be carried forward indefinitely, thus creating an indefinite deferred tax asset. Due to these changes in the Tax Act, management scheduled out the reversal of deferred tax assets and liabilities to determine the amount of future net operating loss carryforwards with an indefinite reversal period created and realized from future taxable income from a more-likely-than-not threshold. Based on this analysis, management determined $4,512 of valuation allowance could be released. The indefinite deferred tax asset can only offset 80% of future taxable income, which is indefinite lived deferred tax liabilities. This analysis was performed pre-federal rate change.

Reduction of U.S. federal corporate tax rate: The Tax Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company has revalued its deferred tax assets and liabilities and the related valuation allowance and recorded a corresponding adjustment to deferred income tax benefit of $1,067 for the year ended December 31, 2017.

Alternative Minimum Tax: As a result of the Tax Act, the corporate AMT was repealed. In addition, taxpayers with AMT credit carryovers in excess of their regular tax liability may have the credits refunded over multiple years from 2018 to 2022. However, AMT transactions, including refunds, are subject to sequestration by the Office of Management Budget. As a result, the Company has reclassed its AMT credit carryforward to another long-term asset and reduced the estimated refund to account for the effects of the sequester. This provisional adjustment resulted in additional tax benefit of $507 due to releasing previously valued AMT credits.

Transition Tax: The Transition Tax is a tax on previously untaxed accumulated and current earnings and profits of certain of the Company's foreign subsidiaries. At the time of measurement, the foreign subsidiaries had an accumulated earnings and profits deficit, which resulted in no additional tax liability.

Consolidated income tax benefit increased $5,752, or 865.0%, to $5,087 during the year ended December 31, 2017, compared to a consolidated income tax expense of $665 during the same period in 2016. In addition to the Tax Act discrete tax benefit, the tax expense recorded during the year ended December 31, 2017 includes discrete charges associated with a disproportionate tax effect released from accumulated other comprehensive income (loss) of $422, and Sierra amortization of indefinite lived intangibles and goodwill of $296. The tax expense recorded during the year ended December 31, 2016 includes a discrete charge for a Swiss withholding tax related to the transferring of Black Diamond Equipment's European operations from Basel, Switzerland to Innsbruck, Austria, and a discrete charge for a potential tax liability related to a tax audit associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China. The audit was formally closed during the three months ended June 30, 2017.

Our effective income tax rate was 88.3% for the year ended December 31, 2017, compared to 8.0% for the same period in 2016.

***Consolidated Year Ended December 31, 2016 Compared to Consolidated Year Ended December 31, 2015***

The following presents a discussion of consolidated operations for the year ended December 31, 2016 compared with the consolidated year ended December 31, 2015:

| | Year Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Sales | | |
| Domestic sales | $ 76,079 | $ 74,391 |
| International sales | 72,110 | 80,875 |
| Total sales | 148,189 | 155,266 |
| Cost of goods sold | 104,505 | 101,020 |
| Gross profit | 43,684 | 54,246 |
| Operating expenses | | |
| Selling, general and administrative | 49,936 | 58,499 |
| Restructuring charge | 1,395 | 3,375 |
| Transaction costs | 290 | 946 |
| Arbitration award | (1,967) | - |
| Impairment of goodwill | - | 29,507 |
| Total operating expenses | 49,654 | 92,327 |
| Operating loss | (5,970) | (38,081) |
| Other expense | | |
| Interest expense, net | (2,876) | (2,767) |
| Other, net | 533 | 434 |
| Total other expense, net | (2,343) | (2,333) |
| Loss from continuing operations before income tax | (8,313) | (40,414) |
| Income tax expense | 665 | 47,692 |
| Loss from continuing operations | (8,978) | (88,106) |
| Discontinued operations, net of tax | - | 10,564 |
| Net loss | $ (8,978) | $ (77,542) |

*Sales*

Consolidated sales decreased $7,077, or 4.6%, to $148,189 during the year ended December 31, 2016 compared to consolidated sales of $155,266 during the year ended December 31, 2015. The decrease in sales was primarily attributable to a decrease in sales of $7,302 due to the weakening of foreign currencies against the U.S. dollar during the year ended December 31, 2016 and a decrease in the quantity of new and existing ski products sold during the period. The decrease was partially offset by an increase in the quantity of new and existing climb and mountain products sold during the period.

Consolidated domestic sales increased $1,688, or 2.3%, to $76,079 during the year ended December 31, 2016 compared to consolidated domestic sales of $74,391 during the year ended December 31, 2015. The increase in domestic sales was primarily attributable to an increase in the quantity of new and existing climb and mountain products sold during the period.

Consolidated international sales decreased $8,765, or 10.8%, to $72,110 during the year ended December 31, 2016 compared to consolidated international sales of $80,875 during the year ended December 31, 2015. The decrease in international sales was primarily attributable to a decrease in sales of $7,302 due to the weakening of foreign currencies against the U.S. dollar during the year ended December 31, 2016 and a decrease in the quantity of new and existing ski products sold during the period.

*Cost of Goods Sold*

Consolidated cost of goods sold increased $3,485, or 3.4%, to $104,505 during the year ended December 31, 2016 compared to consolidated cost of goods sold of $101,020 during the year ended December 31, 2015. The increase in cost of goods sold was primarily attributable to an increase in the cost of the products sold as a result of the continued ramping-up of the Company's manufacturing activities that were transferred from China to the United States.

*Gross Profit*

Consolidated gross profit decreased $10,562 or 19.5%, to $43,684 during the year ended December 31, 2016 compared to consolidated gross profit of $54,246 during the year ended December 31, 2015. Consolidated gross margin was 29.5% during the year ended December 31, 2016 compared to a consolidated gross margin of 34.9% during the year ended December 31, 2015. Consolidated gross margin during the year ended December 31, 2016, decreased compared to the prior year primarily due to the weakening of foreign currencies against the U.S. dollar during the year ended December 31, 2016 compared to the prior period, additional costs associated with the continued ramping-up of the Company's manufacturing activities that were transferred from China to the United States, and the write-off of inventory shipped to certain North American accounts during the first quarter of 2016 that filed for bankruptcy reorganization in April 2016.

*Selling, General and Administrative*

Consolidated selling, general, and administrative expenses decreased $8,563, or 14.6%, to $49,936 during the year ended December 31, 2016 compared to consolidated selling, general, and administrative expenses of $58,499 during the year ended December 31, 2015. The decrease in selling, general and administrative expenses was primarily attributable to the Company's realization of savings from its restructuring plan implemented during 2015 to further realign resources within the organization.

*Restructuring Charges*

Consolidated restructuring expense decreased $1,980, or 58.7%, to $1,395 during the year ended December 31, 2016 compared to consolidated restructuring expense of $3,375 during the year ended December 31, 2015. Restructuring expenses incurred during the year ended December 31, 2016, primarily related to benefits provided to employees who were or will be terminated due to the Company's reduction-in-force as part of its continued realignment of resources within the organization, costs associated with the move of the Company's Black Diamond Equipment European office from Basel, Switzerland to Innsbruck, Austria, and costs associated with the formal closure and liquidation of the Company's Black Diamond Equipment manufacturing operations in Zhuhai, China.

*Transaction Costs*

Consolidated transaction expense decreased $656, or 69.3%, to $290 during the year ended December 31, 2016, compared to consolidated transaction costs of $946 during the year ended December 31, 2015, which consisted of expenses related to the Company's redeployment and diversification strategy.

*Arbitration Award*

During the year ended December 31, 2016, the Company received an arbitral award on agreed terms of $1,967, related to certain claims against the former owner of PIEPS associated with the voluntary recall of all of the PIEPS VECTOR avalanche transceivers during the year ended December 31, 2013.

*Impairment of Goodwill*

Consolidated impairment of goodwill decreased to $0 during the year ended December 31, 2016 compared to consolidated impairment of goodwill of $29,507 during the year ended December 31, 2015. Based on the results of the Company's impairment analysis completed during the fourth quarter of 2015, the Company determined that goodwill was impaired and recognized a charge of $29,507.

*Interest Expense, net*

Consolidated interest expense increased $109, or 3.9%, to $2,876 during the year ended December 31, 2016 compared to consolidated interest expense of $2,767 during the year ended December 31, 2015. The increase in interest expense, net, was primarily attributable to the increase in accretion expense associated with the Company's 5% Senior Subordinated Notes due 2017, which accretion is being amortized utilizing the effective interest rate method.

*Other, net*

Consolidated other, net, increased $99, or 22.8%, to income of $533 during the year ended December 31, 2016 compared to consolidated other, net income of $434 during the year ended December 31, 2015. The increase in other, net, was primarily attributable to an increase in remeasurement gains recognized on the Company's foreign denominated accounts receivable and accounts payable, increases in gains on mark-to-market adjustments on non-hedged foreign currency contracts, and gains related to the sale of marketable securities. These increases were partially offset by losses related to recognition of cumulative translation adjustments due to the substantial liquidation of a foreign entity.

*Income Taxes*

Consolidated income tax decreased $47,027, or 98.6%, to an expense of $665 during the year ended December 31, 2016 compared to consolidated income tax expense of $47,692 during the same period in 2015. The tax expense recorded during the year ended December 31, 2016 includes a discrete charge of $953 for an uncertain tax position associated with the formal closure and liquidation of the Company's Black Diamond Equipment foreign subsidiary in Zhuhai, China, and a discrete charge of $164 for a Swiss withholding tax related to the transferring of Black Diamond Equipment's European operations from Basel, Switzerland to Innsbruck, Austria. The income tax expense was partially offset by an income tax benefit associated with unrealized gains recorded in other comprehensive income (loss), which also has a corresponding tax charge recognized in other comprehensive income (loss). The decrease in tax expense is due the Company recording an increase in its valuation allowance of $48,858 during the year ended December 31, 2015. Certain events and circumstances transpired during the year ended December 31, 2015, which caused the Company to conclude that realization of some portion of deferred tax assets does not satisfy the more-likely-than-not threshold.

Our effective income tax rate was 8.0% for the year ended December 31, 2016, compared to 118.0% for the same period in 2015.

*Discontinued Operations*

The Company sold POC for $63,639 effective October 7, 2015 and as a result we recognized a pre-tax gain of $8,436. Discontinued operations decreased to $0 during the year ended December 31, 2016, compared to a gain from discontinued operations of $10,564 during the year ended December 31, 2015. There was no activity for POC during the year ended December 31, 2016.

**Liquidity and Capital Resources**

***Consolidated Year ended December 31, 2017 Compared to Consolidated Year ended December 31, 2016***

The following presents a discussion of cash flows for the consolidated year ended December 31, 2017 compared with the consolidated year ended December 31, 2016. Our primary ongoing funding requirements are for working capital, expansion of our operations and general corporate needs, as well as investing activities associated with the expansion into new product categories. We plan to fund these activities through a combination of our future operating cash flows and revolving credit facility. We believe that our liquidity requirements for at least the next 12 months will be adequately covered by cash provided by operations and our existing revolving credit facility. At December 31, 2017, we had total cash of $1,856 compared to a cash balance of $94,738 at December 31, 2016, which was substantially controlled by the Company's U.S. entities. At December 31, 2017, the Company had $1,176 of the $1,856 in cash held by foreign entities, of which $1,176 is considered permanently reinvested.

| | Year Ended December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Net cash (used in) provided by operating activities | $ (8,920) | $ 4,810 |
| Net cash (used in) provided by investing activities | (82,032) | 6,770 |
| Net cash used in financing activities | (2,057) | (5,222) |
| Effect of foreign exchange rates on cash | 127 | (21) |
| Change in cash | (92,882) | 6,337 |
| Cash, beginning of period | 94,738 | 88,401 |
| Cash, end of period | $ 1,856 | $ 94,738 |

*Net Cash From Operating Activities*

Consolidated net cash used in operating activities was $8,920 during the year ended December 31, 2017 compared to consolidated net cash provided by operating activities of $4,810 during the year ended December 31, 2016. The increase in net cash used in operating activities during 2017 is primarily due to an increase in net operating assets, net of assets acquired or non-cash working capital of $17,931 partially offset by a decrease in net loss during the year ended December 31, 2017, compared to the same period in 2016.

Free cash flow, defined as net cash provided by operating activities less capital expenditures, was free cash flows used of $11,767 during the year ended December 31, 2017 compared to free cash flows generated of $2,244 during the same period in 2016. The Company believes that the non-GAAP measure, free cash flow, provides an understanding of the capital required by the Company to expand its asset base. A reconciliation of free cash flows to comparable GAAP financial measures is set forth below:

| | Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net cash (used in) provided by operating activities | $ (8,920) | $ 4,810 |
| Purchase of property and equipment | (2,847) | (2,566) |
| Free cash flow | $ (11,767) | $ 2,244 |

*Net Cash From Investing Activities*

Consolidated net cash used in investing activities was $82,032 during the year ended December 31, 2017 compared to consolidated net cash provided by investing activities of $6,770 during the year ended December 31, 2016. The increase in cash used during the year ended December 31, 2017 is primarily due to the $79,238 used for the purchase of Sierra, net of cash acquired. The cash provided during the year ended December 31, 2016 was primarily from the sale of marketable securities of $10,235.

*Net Cash From Financing Activities*

Consolidated net cash used in financing activities was $2,057 during the year ended December 31, 2017, compared to consolidated net cash used in financing activities of $5,222 during the year ended December 31, 2016. The cash provided during the year ended December 31, 2017 relates primarily to proceeds from the revolving credit facility offset by repayments of long-term debt. The cash used during the year ended December 31, 2016 relates to the repurchase of its common stock.

***Net Operating Loss***

As of December 31, 2017, the Company had net operating loss, research and experimentation credit and alternative minimum tax credit carryforwards for U.S. federal income tax purposes of $156,598, $3,452 and $0, respectively. The Company believes its U.S. Federal net operating loss (“NOL”) will substantially offset its future U.S. Federal income taxes. The majority of the Company’s pre-tax income is currently earned and expected to be earned in the U.S., or taxed in the U.S. as Subpart F income and will be offset with the NOL. $156,598 of net operating losses available to offset taxable income does not expire until 2021 or later, subject to compliance with Section 382 of the Internal Revenue Code of 1986, as amended.

As of December 31, 2017, the Company’s gross deferred tax asset was $50,732. The Company has recorded a valuation allowance of $45,811, resulting in a net deferred tax asset of $4,921, before deferred tax liabilities of $8,587. The Company has provided a valuation allowance against a portion of the net deferred tax assets as of December 31, 2017, because the ultimate realization of those assets does not meet the more likely than not criteria. The majority of the Company’s deferred tax assets consist of net operating loss carryforwards for federal tax purposes. If a change in control were to occur, these could be limited under Section 382 of the Internal Revenue Code of 1986 (“Code”), as amended.

***Revolving Credit Facility***

In conjunction with the acquisition of Sierra, on August 21, 2017, the Company together with its direct and indirect domestic subsidiaries entered into a third amended and restated loan agreement (the “Third Amended and Restated Loan Agreement”) with ZB, N.A. dba Zions First National Bank (the “Lender”), which matures on August 21, 2022. Under the Third Amended and Restated Loan Agreement, the Company has up to a $40,000 revolving line of credit (the “Revolving Line of Credit”) pursuant to a fourth amended and restated promissory note (revolving loan) (the “Revolving Line of Credit Promissory Note”). The maximum borrowing of $40,000 (the “Maximum Borrowing”) under the Revolving Line of Credit reduces by $1,250 per quarter until such time as the maximum borrowing amount is $20,000, provided, that the Company may request an increase of up to $20,000 as an accordion option (the “Accordion”) to increase the Revolving Line of Credit up to the Maximum Borrowing on a seasonal or permanent basis for funding general corporate needs including working capital, capital expenditures, permitted loans or investments in subsidiaries, and the issuance of letters of credit. Availability under the Revolving Line of Credit may not exceed $30,000 unless the Company has sufficient eligible receivable, inventory and equipment assets at such time pursuant to formulas set forth in the Third Amended and Restated Loan Agreement.

All debt associated with the Third Amended and Restated Loan Agreement bears interest at one-month London Interbank Offered Rate ("LIBOR") plus an applicable margin as determined by the ratio of Total Net Debt (subject to adjustments as set forth in the Third Amended and Restated Loan Agreement) to Trailing Twelve Month Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") as follows: (i) one month LIBOR plus 4.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.75; (ii) one month LIBOR plus 3.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.00 and less than 2.75; (iii) one month LIBOR plus 2.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 1.00 and less than 2.00; and (iv) one month LIBOR plus 1.5% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is less than 1.00.

Any amount outstanding under the Third Amended and Restated Loan Agreement will be secured by a general first priority Uniform Commercial Code ("UCC") security interest in all material domestic assets of the Company and its domestic subsidiaries, including, but not limited to: accounts, accounts receivable, inventories, equipment, real property, ownership in subsidiaries, and intangibles including patents, trademarks and copyrights. Proceeds of the foregoing will be secured via pledge and control agreements on domestic depository and investment accounts not held with the Lender.

The Third Amended and Restated Loan Agreement contains certain financial covenants including restrictive debt covenants that require the Company and its subsidiaries to maintain a minimum fixed charge coverage ratio, a maximum total leverage ratio, a minimum net worth, a positive amount of asset coverage and limitations on capital expenditures, all as calculated in the Third Amended and Restated Loan Agreement.

In addition, the Third Amended and Restated Loan Agreement contains covenants restricting the Company and its subsidiaries from pledging or encumbering their assets, with certain exceptions, and from engaging in acquisitions other than acquisitions permitted by the Third Amended and Restated Loan Agreement. The Third Amended and Restated Loan Agreement contains customary events of default (with grace periods where customary) including, among other things, failure to pay any principal or interest when due; any materially false or misleading representation, warranty, or financial statement; failure to comply with or to perform any provision of the Third and Restated Loan Agreement; and default on any debt or agreement in excess of certain amounts. As of December 31, 2017, the Company had drawn $20,842 on the $40,000 Revolving Line of Credit.

***5% Senior Subordinated Notes due May 28, 2017***

As part of the consideration payable to the stockholders of Gregory when the Company acquired Gregory, the Company issued $14,517, $7,539, and $554 in 5% Unsecured Subordinated Notes due May 28, 2017 (the "Merger Consideration Subordinated Notes") to Kanders GMP Holdings, LLC, Schiller Gregory Investment Company, LLC, and five former employees of Gregory, respectively. Mr. Warren B. Kanders, the Company's Executive Chairman and a member of its Board of Directors, is a majority member and a trustee of the manager of Kanders GMP Holdings, LLC. The principal terms of the Merger Consideration Subordinated Notes are as follows: (i) the principal amount is due and payable on May 28, 2017 and is prepayable by the Company at any time; (ii) interest will accrue on the principal amount at the rate of 5% per annum and shall be payable quarterly in cash; (iii) the default interest rate shall accrue at the rate of 10% per annum during the occurrence of an event of default; and (iv) events of default, which can only be triggered with the consent of Kanders GMP Holdings, LLC, are: (a) the default by the Company on any payment due under a Merger Consideration Subordinated Note; (b) the Company's failure to perform or observe any other material covenant or agreement contained in the Merger Consideration Subordinated Notes; or (c) the Company's instituting or becoming subject to a proceeding under the Bankruptcy Code (as defined in the Merger Consideration Subordinated Notes). The Merger Consideration Subordinated Notes are junior to all senior indebtedness of the Company, except that payments of interest continue to be made under the Merger Consideration Subordinated Notes as long as no event of default exists under any senior indebtedness.

Given the below market interest rate for comparably secured notes and the relative illiquidity of the Merger Consideration Subordinated Notes, we have discounted the notes to $8,640, $4,487 and $316, respectively, at the date of acquisition. We are accreting the discount on the Merger Consideration Subordinated Notes to interest expense using the effective interest method over the term of the Merger Consideration Subordinated Notes. The effective interest rate is approximately 14%.

On April 7, 2011, Schiller Gregory Investment Company, LLC transferred its Merger Consideration Subordinated Note in equal amounts to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust. On June 24, 2013, the Robert R. Schiller Cornerstone Trust dated September 9, 2010 transferred its Merger Consideration Subordinated Note in the amount of $3,769 to the Robert R. Schiller 2013 Cornerstone Trust dated June 24, 2013. During the year ended December 31, 2017, $89 in interest was paid to Kanders GMP Holdings, LLC, and $46 in interest was paid to the Robert R. Schiller 2013 Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust pursuant to the outstanding Merger Consideration Subordinated Notes.

On May 29, 2012 and August 13, 2012, five former employees of Gregory exercised certain sales rights and sold Merger Consideration Subordinated Notes in the aggregate principal amount of approximately $365 to Kanders GMP Holdings, LLC and in the aggregate principal amount of approximately $189 to Schiller Gregory Investment Company, LLC. During the year ended December 31, 2017, $2 in interest was paid to Kanders GMP Holdings, LLC, and $1 in interest was paid to Schiller Gregory Investment Company, LLC, pursuant to these outstanding Merger Consideration Subordinated Notes.

In February 2017, the Board of Directors approved the repayment of the Merger Consideration Subordinated Notes. On February 13, 2017, the entire principal amounts and all accrued interest amounts were paid in full. The note discount as of December 31, 2016 of $814 was expensed and recognized as interest expense during the three months ended March 31, 2017.

***Off-Balance Sheet Arrangements***

We do not engage in any transactions or have relationships or other arrangements with unconsolidated entities. These include special purpose and similar entities or other off-balance sheet arrangements. We also do not engage in energy, weather or other commodity-based contracts.

***Contractual Obligations***

The following summarizes our contractual obligations and commercial commitments at December 31, 2017 with initial or remaining terms of one or more years, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| | | | **(in thousands)** | | |
| **Contractual Obligations:** | | | | | |
| Recorded liabilities: | | | | | |
| Revolving credit facility (1) | $ 20,842 | $ - | $ - | $ 20,842 | $ - |
| Other long-term liabilities (2) | 175 | - | 73 | - | 102 |
| Unrecorded commitments: | | | | | |
| Interest payment obligations (3) | 4,216 | 909 | 1,818 | 1,489 | - |
| Operating leases (4) | 834 | 391 | 346 | 97 | - |
| Purchase obligations (5) | 32,780 | 32,780 | - | - | - |
| | $ 58,847 | $ 34,080 | $ 2,237 | $ 22,428 | $ 102 |

(1) Revolving credit facility represents required principal payments on the Company's line of credit with the Lender.

(2) Other long-term liabilities represent payments due for other noncurrent liabilities in the Company's consolidated balance sheet.

(3) Interest payment obligations represent required interest payments on the revolving credit facility. Amounts exclude bank fees that would be included in interest expense in the consolidated financial statements.

(4) Operating leases represent required minimum lease payments.

(5) Purchase obligations represent an agreement to purchase goods or services.

The Company has uncertain tax positions of $476 as of December 31, 2017, however the specific timing of the settlement is uncertain and has been excluded from the table above.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In general, we can be exposed to market risks including fluctuations in interest rates, foreign currency exchange rates and certain commodity prices, and that can affect the cost of operating, investing, and financing under those conditions. The Company believes it has moderate exposure to these risks. We assess market risk based on changes in interest rates, foreign currency rates, and commodity prices utilizing a sensitivity analysis that measures the potential loss in earnings, fair values, and cash flows based on a hypothetical change in these rates and prices.

### Interest Rate Risks

Our primary exposure to market risk is interest rate risk associated with our $40,000 Revolving Line of Credit. We have cash flow exposure on the Revolving Line of Credit since the interest is indexed to LIBOR. The applicable interest rate for the outstanding borrowings under the Revolving Line of Credit as of December 31, 2017 and 2016 was 4.3607% and 2.6167%, respectively. Amounts outstanding as of December 31, 2017 and 2016 were $20,842 and $0, respectively. A 25-basis point increase in market interest rates would not cause a material effect on interest expense.

### Foreign Currency Risks

While we transact business predominantly in U.S. dollars and most of our revenues are collected in U.S. dollars, a portion of our revenues and operating costs are denominated in other currencies. Given the current political uncertainty surrounding the European Union and other economic uncertainties worldwide, changes in the relation of these and other currencies to the U.S. dollar will affect our sales and profitability and could result in exchange losses. For the year ending December 31, 2017, approximately 34% of our pro forma sales were denominated in foreign currencies (compared to 32% in the prior year), the most significant of which were the Euro, Canadian Dollar, British Pound, Norwegian Kroner, and Swiss Franc. The primary purpose of our foreign currency hedging activities is to mitigate the foreign currency exchange rate exposure on the cash flows related to forecasted inventory purchases and sales. A hypothetical 10% change in foreign currency rates would not have a material effect on foreign currency gains and losses related to the foreign currency derivatives or the net fair value of the Company's foreign currency derivatives. We have not held a material amount of foreign assets during the years ended December 31, 2017, 2016 and 2015, and do not believe our foreign assets expose us to a material foreign currency risk.

### Derivative Instruments

We employ a variety of practices to manage these market risks, including operating and financing activities and, where deemed appropriate, the use of derivative instruments. Derivative instruments are used only for risk management purposes and not for speculation or trading. Derivatives are such that a specific debt instrument, contract, or anticipated purchase determines the amount, maturity, and other specifics of the hedge. If a derivative contract is entered into, we either determine that it is an economic hedge or we designate the derivative as a cash flow or fair value hedge. We do not hold derivative financial investments, derivative commodity investments, engage in foreign currency hedging or other transactions that expose us to material market risks.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**CLARUS CORPORATION AND SUBSIDIARIES**

**Index to Financial Statements**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Stockholders and Board of Directors**
**of Clarus Corporation:**

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Clarus Corporation and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 12, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2000.

Salt Lake City, Utah
March 12, 2018

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 1,856 | $ 94,738 |
| Accounts receivable | 35,817 | 23,232 |
| Inventories | 58,138 | 45,410 |
| Prepaid and other current assets | 3,633 | 3,480 |
| Income tax receivable | - | 85 |
| Total current assets | 99,444 | 166,945 |
| | | |
| Property and equipment, net | 24,345 | 11,055 |
| Other intangible assets, net | 23,238 | 9,769 |
| Indefinite lived intangible assets | 41,843 | 22,541 |
| Goodwill | 17,745 | - |
| Other long-term assets | 834 | 147 |
| **Total assets** | $ 207,449 | $ 210,457 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 19,456 | $ 17,740 |
| Income tax payable | 328 | 969 |
| Current portion of long-term debt | - | 21,898 |
| Total current liabilities | 19,784 | 40,607 |
| | | |
| Long-term debt | 20,842 | - |
| Deferred income taxes | 3,666 | 8,966 |
| Other long-term liabilities | 175 | 76 |
| **Total liabilities** | 44,467 | 49,649 |
| | | |
| **Stockholders' Equity** | | |
| Preferred stock, $.0001 par value; 5,000 shares authorized; none issued | - | - |
| Common stock, $.0001 par value; 100,000 shares authorized; 32,917 and 32,888 issued and 30,041 and 30,016 outstanding, respectively | 3 | 3 |
| Additional paid in capital | 485,285 | 483,925 |
| Accumulated deficit | (310,390) | (309,717) |
| Treasury stock, at cost | (12,415) | (12,398) |
| Accumulated other comprehensive income (loss) | 499 | (1,005) |
| **Total stockholders' equity** | 162,982 | 160,808 |
| **Total liabilities and stockholders' equity** | $ 207,449 | $ 210,457 |

**See accompanying notes to consolidated financial statements.**

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

| | Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Sales | | | |
| Domestic sales | $ 88,603 | $ 76,079 | $ 74,391 |
| International sales | 82,084 | 72,110 | 80,875 |
| Total sales | 170,687 | 148,189 | 155,266 |
| | | | |
| Cost of goods sold | 116,877 | 104,505 | 101,020 |
| Gross profit | 53,810 | 43,684 | 54,246 |
| | | | |
| Operating expenses | | | |
| Selling, general and administrative | 56,295 | 49,936 | 58,499 |
| Restructuring charge | 160 | 1,395 | 3,375 |
| Merger and integration | 82 | - | - |
| Transaction costs | 2,088 | 290 | 946 |
| Arbitration award | - | (1,967) | - |
| Impairment of goodwill | - | - | 29,507 |
| | | | |
| Total operating expenses | 58,625 | 49,654 | 92,327 |
| | | | |
| Operating loss | (4,815) | (5,970) | (38,081) |
| | | | |
| Other (expense) income | | | |
| Interest expense, net | (1,288) | (2,876) | (2,767) |
| Other, net | 343 | 533 | 434 |
| | | | |
| Total other expense, net | (945) | (2,343) | (2,333) |
| | | | |
| Loss before income tax | (5,760) | (8,313) | (40,414) |
| Income tax (benefit) expense | (5,087) | 665 | 47,692 |
| Loss from continuing operations | (673) | (8,978) | (88,106) |
| | | | |
| Discontinued operations, net of tax | - | - | 10,564 |
| | | | |
| Net loss | (673) | (8,978) | (77,542) |
| | | | |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized income (loss) on marketable securities | - | 107 | (48) |
| Foreign currency translation adjustment | 2,634 | (694) | 3,209 |
| Unrealized (loss) income on hedging activities | (1,130) | 792 | (1,959) |
| Other comprehensive income | 1,504 | 205 | 1,202 |
| Comprehensive income (loss) | $ 831 | $ (8,773) | $ (76,340) |
| | | | |
| Loss from continuing operations per share: | | | |
| Basic | $ (0.02) | $ (0.30) | $ (2.70) |
| Diluted | (0.02) | (0.30) | (2.70) |
| | | | |
| Net loss per share: | | | |
| Basic | $ (0.02) | $ (0.30) | $ (2.38) |
| Diluted | (0.02) | (0.30) | (2.38) |
| | | | |
| Weighted average shares outstanding: | | | |
| Basic | 30,022 | 30,397 | 32,600 |
| Diluted | 30,022 | 30,397 | 32,600 |

**See accompanying notes to consolidated financial statements.**

**CLARUS CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **Cash Flows From Operating Activities:** | | | |
| Net loss | $ (673) | $ (8,978) | $ (77,542) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | | |
| Depreciation of property and equipment | 2,883 | 2,264 | 3,462 |
| Amortization of intangible assets | 2,376 | 1,075 | 2,111 |
| Impairment of goodwill | - | - | 29,507 |
| Gain on sale of discontinued operations | - | - | (8,436) |
| Accretion of notes payable | 833 | 1,842 | 1,537 |
| Amortization of debt issuance costs | 28 | - | - |
| Gain on sale of marketable securities | - | (241) | - |
| Loss (gain) on disposition of assets | 109 | (5) | 183 |
| (Gain) loss from removal of accumulated translation adjustment | (202) | 263 | (500) |
| Stock-based compensation | 1,181 | 227 | 449 |
| Deferred income taxes | (5,476) | (512) | 50,174 |
| Changes in operating assets and liabilities, net of acquisition: | | | |
| Accounts receivable | (8,673) | 2,765 | 1,726 |
| Inventories | 1,360 | 5,382 | (558) |
| Prepaid and other assets | (1,427) | 2,831 | (191) |
| Accounts payable and accrued liabilities | (137) | (4,114) | (3,248) |
| Income taxes | (579) | 1,611 | 4,889 |
| Other | (523) | 400 | 106 |
| Net cash (used in) provided by operating activities | (8,920) | 4,810 | 3,669 |
| **Cash Flows From Investing Activities:** | | | |
| Proceeds from the sales of marketable securities | - | 10,235 | - |
| (Payments) proceeds related to the sale of POC | - | (921) | 60,875 |
| Purchase of business, net of cash received | (79,238) | - | - |
| Proceeds from disposition of property and equipment | 53 | 22 | 335 |
| Purchase of property and equipment | (2,847) | (2,566) | (2,804) |
| Net cash (used in) provided by investing activities | (82,032) | 6,770 | 58,406 |
| **Cash Flows From Financing Activities:** | | | |
| Net proceeds from revolving credit facilities | 20,842 | - | 2,202 |
| Repayments of long-term debt | (22,727) | - | (21) |
| Proceeds from issuance of long-term debt | - | - | 43 |
| Payment of debt issuance costs | (334) | - | - |
| Purchase of treasury stock | (17) | (5,222) | (6,990) |
| Proceeds from exercise of stock options | 179 | - | 264 |
| Net cash used in financing activities | (2,057) | (5,222) | (4,502) |
| **Effect of foreign exchange rates on cash** | 127 | (21) | (206) |
| **Change in cash** | (92,882) | 6,337 | 57,367 |
| **Cash, beginning of period** | 94,738 | 88,401 | 31,034 |
| **Cash, end of period** | $ 1,856 | $ 94,738 | $ 88,401 |
| **Supplemental Disclosure of Cash Flow Information:** | | | |
| Cash paid (received) for income taxes | $ 931 | $ (426) | $ (7,614) |
| Cash paid for interest | $ 598 | $ 1,238 | $ 1,344 |
| **Supplemental Disclosures of Non-Cash Investing and Financing Activities:** | | | |
| Property and equipment purchased with accounts payable | $ 140 | $ 47 | $ 28 |

**See accompanying notes to consolidated financial statements.**

## CLARUS CORPORATION
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
## (In thousands)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Deficit | Treasury Stock Shares | Treasury Stock Amount | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | 32,801 | $ 3 | $ 482,985 | $ (223,197) | (97) | $ (186) | $ (2,412) | $ 257,193 |
| Net loss | - | - | - | (77,542) | - | - | - | (77,542) |
| Other comprehensive income | - | - | - | - | - | - | 1,202 | 1,202 |
| Purchase of treasury stock | - | - | - | - | (1,584) | (7,134) | - | (7,134) |
| Stock compensation plans, net | 83 | - | 713 | - | - | - | - | 713 |
| Balance, December 31, 2015 | 32,884 | $ 3 | $ 483,698 | $ (300,739) | (1,681) | $ (7,320) | $ (1,210) | $ 174,432 |
| Net loss | - | - | - | (8,978) | - | - | - | (8,978) |
| Other comprehensive income | - | - | - | - | - | - | 205 | 205 |
| Purchase of treasury stock | - | - | - | - | (1,191) | (5,078) | - | (5,078) |
| Stock compensation plans, net | 4 | - | 227 | - | - | - | - | 227 |
| Balance, December 31, 2016 | 32,888 | $ 3 | $ 483,925 | $ (309,717) | (2,872) | $ (12,398) | $ (1,005) | $ 160,808 |
| Net loss | - | - | - | (673) | - | - | - | (673) |
| Other comprehensive income | - | - | - | - | - | - | 1,504 | 1,504 |
| Purchase of treasury stock | - | - | - | - | (3) | (17) | - | (17) |
| Stock compensation plans, net | 29 | - | 1,360 | - | - | - | - | 1,360 |
| Balance, December 31, 2017 | 32,917 | $ 3 | $ 485,285 | $ (310,390) | (2,875) | $ (12,415) | $ 499 | $ 162,982 |

**See accompanying notes to consolidated financial statements.**

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

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

The accompanying audited consolidated financial statements of Clarus Corporation and subsidiaries (which may be referred to as the "Company," "Clarus," "we," "our" or "us") have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

### Nature of Business

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

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

Clarus Corporation, incorporated in Delaware in 1991, acquired Black Diamond Equipment, Ltd. (which may be referred to as "Black Diamond Equipment" or "BDEL") and Gregory Mountain Products, LLC (which may be referred to as "Gregory Mountain Products", "Gregory" or "GMP") in May 2010 and changed its name to Black Diamond, Inc., in January 2011. In July 2012, we acquired POC Sweden AB and its subsidiaries (collectively, "POC") and in October 2012, we acquired PIEPS Holding GmbH and its subsidiaries (collectively, "PIEPS").

On July 23, 2014, the Company completed the sale of certain assets to Samsonite LLC comprising Gregory Mountain Product's business.

On October 7, 2015, the Company and the Company's wholly owned subsidiary, Ember Scandinavia AB ("Ember"), sold their respective equity interests in POC comprising POC's business of designing, manufacturing, marketing, distributing and selling advanced-design helmets, body armor, goggles, eyewear, gloves, and apparel for action or "gravity sports," such as skiing, snowboarding, and cycling pursuant to a Purchase Agreement (the "POC Purchase Agreement"), dated as of October 7, 2015, by and among the Company and Ember, as sellers, and Dainese S.p.A. and Dainese U.S.A., Inc. (collectively "Dainese"), as purchasers. Under the terms of the POC Purchase Agreement, Dainese paid $63,639 in cash for POC (the "POC Disposition"). The activities of POC have been segregated and reported as discontinued operations for all periods presented. See Note 3. Discontinued Operations to the notes to consolidated financial statements.

On August 14, 2017, the Company changed its name from Black Diamond, Inc. to Clarus Corporation and its stock ticker symbol from "BDE" to "CLAR" on the NASDAQ stock exchange. On August 21, 2017, the Company acquired Sierra Bullets, L.L.C. ("Sierra" or "Sierra Bullets").

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The more significant estimates relate to purchase price allocation, excess or obsolete inventory, and valuation of deferred tax assets. We base our estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

**Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include the accounts of Clarus Corporation and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

*Foreign Currency Transactions and Translation*

The accounts of the Company's international subsidiaries' financial statements which have functional currencies other than the U.S. dollar are translated into U.S. dollars using the exchange rate at the balance sheet dates for assets and liabilities and average exchange rates for the periods for revenues, expenses, gains and losses. Foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in other (expense) income in the consolidated statements of comprehensive income (loss).

*Cash Equivalents*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2017 and 2016, the Company did not hold any amounts that were considered to be cash equivalents. Book overdrafts are classified as a financing activity in the consolidated statements of cash flows.

*Marketable Securities*

Marketable securities consisted of an exchange-traded fund. The Company accounts for its marketable securities as available-for-sale. Available-for-sale securities are recorded at fair value and related unrealized gains and losses are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. The cost basis of the exchange traded fund was $9,994 and the unrealized losses were $107, net of taxes of $63, as of December 31, 2015. The Company sold the exchange traded fund and recognized a gain of $241 in earnings during the twelve months ending December 31, 2016.

*Accounts Receivable and Allowance for Doubtful Accounts*

The Company records its trade receivables at sales value and establishes a non-specific allowance for estimated doubtful accounts based on historical experience of collectability. In addition, specific allowances are established for customer accounts as known collection problems occur due to insolvency, disputes or other collection issues. The amounts of these specific allowances are estimated by management based on the customer's financial position, the age of the customer's receivables and the reasons for any disputes. The allowance for doubtful accounts is reduced by subsequent collections of the specific allowances or by any write-off of customer accounts that are deemed uncollectible. The allowance for doubtful accounts was $382 and $399 at December 31, 2017 and 2016, respectively. There were no significant write-offs of the Company's accounts receivable during the years ended December 31, 2017, 2016, and 2015.

*Inventories*

Inventories are stated at the lower of cost (using the first-in, first-out method "FIFO") or net realizable value. Elements of cost in the Company's manufactured inventories generally include raw materials, direct labor, manufacturing overhead and freight in. The Company reviews its inventories for excess, close-out, or slow moving items and makes provisions as necessary to properly reflect inventory values.

*Property and Equipment*

Property and equipment is stated at historical cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives. The principal estimated useful lives are: building improvements, 20 years; computer hardware and software and machinery and equipment, 3-10 years; furniture and fixtures, 5 years. Leasehold improvements are amortized over the lesser of the estimated useful life of the improvement or the life of the lease. Equipment under capital leases are stated at the present value of minimum lease payments. Major replacements, which extend the useful lives of equipment, are capitalized and depreciated over the remaining useful life. Normal maintenance and repair items are expensed as incurred. Property and equipment are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. Long-lived assets located outside of the United States are not considered material.

*Goodwill*

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets of acquired companies. Goodwill is not amortized, but rather is tested at the reporting unit level at least annually for impairment or more frequently if triggering events or changes in circumstances indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Some of these qualitative factors may include macroeconomic conditions, industry and market considerations, a change in financial performance, entity-specific events, a sustained decrease in share price, and consideration of the difference between the fair value and carrying amount of a reporting unit as determined in the most recent quantitative assessment. If, through this qualitative assessment, the conclusion is made that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a two-step quantitative impairment analysis is performed. The first step involves estimating the fair value of the reporting unit based upon an acceptable valuation method under ASC 820 Fair Value Measurement. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test is performed to measure the amount of the impairment loss. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit as determined in step one, less fair values of all other net tangible and intangible assets of the reporting unit determined in a manner similar to a purchase price allocation. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. For the year ended December 31, 2015, the Company recognized an entire goodwill impairment of $29,507 related to the Black Diamond segment. No impairment was recorded during the years ended December 31, 2017 and 2016.

*Intangible Assets*

Intangible assets represent other intangible assets and indefinite-lived intangible assets acquired. Other intangible assets are amortized over their related useful lives. Other intangible assets are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable.

Indefinite-lived intangible assets are not amortized; however, they are tested at least annually for impairment or more frequently if events or changes in circumstances exist that may indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, through this qualitative assessment, the conclusion is made that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount, or the Company elects to bypass the qualitative assessment, a quantitative impairment analysis is performed by comparing the indefinite-lived intangible asset's book value to its estimated fair value. The fair value for indefinite-lived intangible assets is determined through an income approach using the relief-from-royalty method. The amount of any impairment is measured as the difference between the carrying amount and the fair value of the impaired asset. During the years ended December 31, 2017, 2016, and 2015, no impairment of indefinite-lived intangible assets was recorded.

*Derivative Financial Instruments*

The Company uses derivative instruments to hedge currency rate movements on foreign currency denominated sales. The Company enters into forward contracts, option contracts and non-deliverable forwards to manage the impact of foreign currency fluctuations on a portion of its forecasted foreign currency exposure. These derivatives are carried at fair value on the Company's consolidated balance sheets in prepaid and other current assets, other long-term assets, accounts payable and accrued liabilities, and other long-term liabilities. Changes in fair value of the derivatives not designated as hedge instruments are included in the determination of net income. For derivative contracts designated as hedge instruments, the effective portion of gains and losses resulting from changes in fair value of the instruments are included in accumulated other comprehensive income (loss) and reclassified to sales in the period the underlying hedged item is recognized in earnings.

For all hedging relationships, the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged transaction, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness. The Company also formally assesses, both at the inception of the hedging relationship and on an ongoing basis, whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in cash flows of hedged transactions. The Company uses operating budgets and cash flow forecasts to estimate future foreign currency cash flow exposures and to determine the level and timing of derivative transactions intended to mitigate such exposures in accordance with its risk management policies. The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows attributable to the hedged risk, the derivative expires or is sold, terminated, or exercised, the cash flow hedge is dedesignated because a forecasted transaction is not probable of occurring, or management determines to remove the designation of the cash flow hedge. The Company does not enter into derivative instruments for any purpose other than cash flow hedging. The Company does not speculate using derivative instruments.

*Stock-Based Compensation*

The Company records compensation expense for all share-based awards granted based on the fair value of the award at the time of the grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses assumptions and estimates that the Company believes are reasonable. Stock-based compensation costs for stock awards and restricted stock awards is measured based on the closing market value of the Company's common stock on the date of the grant. For restricted stock awards subject to market conditions, the fair value of each restricted stock award has been estimated as of the date of grant using the Monte-Carlo pricing model. The Company recognizes the cost of the share-based awards on a straight-line basis over the requisite service period of the award and recognizes forfeitures in the period they occur. Stock options granted have contractual terms of up to ten years. Upon exercise of stock options or vesting of restricted stock awards, the Company issues shares from those authorized and reserved for issuance.

*Revenue Recognition*

The Company sells its products pursuant to customer orders and agreements entered into with its customers. Revenue is recognized when persuasive evidence of an arrangement exists, title and risk of loss pass to the customer, the price is fixed and determinable, and collectability is reasonably assured. Charges for shipping and handling fees billed to customers are included in net sales and the corresponding shipping and handling expenses are included in cost of sales in the accompanying consolidated statements of comprehensive income (loss).

At the time of revenue recognition, we also provide for estimated sales returns and miscellaneous claims from customers as reductions to revenues. The estimates are based on historical rates of product returns and claims. However, actual returns and claims in any future period are inherently uncertain and thus may differ from these estimates. If actual or expected future returns and claims are significantly greater or lower than the allowances that we have established, we will record a reduction or increase to sales in the period in which we make such a determination. Over the three-year period ended December 31, 2017, our actual annual sales returns have been less than three percent (3%) of net sales. The allowance for outstanding sales returns from customers is not material to the consolidated financial statements. Revenues are attributed to countries based on location of the customer. No individual foreign country comprises greater than 10% of consolidated net sales.

*Cost of Sales*

The expenses that are included in cost of sales include all direct product costs and costs related to shipping, handling, duties and importation fees. Product warranty costs and specific provisions for excess, close-out, or slow moving inventory are also included in cost of sales.

*Selling, General and Administrative Expense*

Selling, general and administrative expense includes personnel-related costs, product development, selling, advertising, depreciation and amortization, and other general operating expenses. Advertising costs are expensed in the period incurred. Total advertising expense for continuing operations, including cooperative advertising costs, were \$3,951, \$2,605, and \$3,220 for the years ended December 31, 2017, 2016, and 2015, respectively.

Through cooperative advertising programs, the Company reimburses its wholesale customers for some of their costs of advertising the Company's products based on various criteria, including the value of purchases from the Company and various advertising specifications. Cooperative advertising costs were \$537, \$741, and \$1,037 for the years ended December 31, 2017, 2016, and 2015, respectively, and were included in selling, general, and administrative expense because the Company receives an identifiable benefit in exchange for the cost, the advertising may be obtained from a party other than the customer, and the fair value of the advertising benefit can be reasonably estimated.

*Product Warranty*

Some of the Company's products carry warranty provisions for defects in quality and workmanship. Warranty repairs and replacements are recorded in cost of sales and a warranty liability is established at the time of sale to cover estimated costs based on the Company's history of warranty repairs and replacements. The Company recorded a liability for product warranties totaling \$987 and \$892 as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017, 2016, and 2015, the Company experienced warranty claims on its products of \$949, \$1,051, and \$813, respectively.

*Reporting of Taxes Collected*

Taxes collected from customers and remitted to government authorities are reported on the net basis and are excluded from sales.

*Research and Development*

Research and development costs are charged to expense as incurred, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Total research and development costs for continuing operations were $7,984, $6,598, and $7,469 for the years ended December 31, 2017, 2016, and 2015, respectively.

*Income Taxes*

Income taxes are based on amounts of taxes payable or refundable in the current year and on expected future tax consequences of events that are recognized in the financial statements in different periods than they are recognized in tax returns. As a result of timing of recognition and measurement differences between financial accounting standards and income tax laws, temporary differences arise between amounts of pre-tax financial statement income and taxable income and between reported amounts of assets and liabilities in the Consolidated Balance Sheets and their respective tax bases. Deferred income tax assets and liabilities reported in the Consolidated Balance Sheets reflect estimated future tax effects attributable to these temporary differences and to net operating loss and net capital loss carryforwards, based on enacted tax rates expected to be in effect for years in which the differences are expected to be settled or realized. Realization of deferred tax assets is dependent on future taxable income in specific jurisdictions. Valuation allowances are used to reduce deferred tax assets to amounts considered more-likely-than-not to be realized. U.S. deferred income taxes are not provided on undistributed income of foreign subsidiaries where such earnings are considered to be permanently invested.

The Company recognizes interest expense and penalties related to income tax matters in income tax (benefit) expense.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax (benefit) expense. Unrecognized tax benefits that reduce a net operating loss, similar tax loss or tax credit carryforward, are presented as a reduction to deferred income taxes.

*Concentration of Credit Risk and Sales*

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, accounts receivable, and aggregate unrealized gains (losses) on derivative contracts. Risks associated with cash within the United States are mitigated by banking with federally insured, creditworthy institutions; however, there are balances with these institutions that are greater than the Federal Deposit Insurance Corporation insurance limit. The Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses as considered necessary by management.

During the years ended December 31, 2017, 2016 and 2015, Recreational Equipment, Inc. ("REI") accounted for approximately 14%, 16% and 17%, respectively, of the Company's sales from continuing operations.

*Fair Value Measurements*

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature and liquidity of these financial instruments. Derivative financial instruments are recorded at fair value based on current market pricing models. The Company estimates that, due to the variable interest rates reflecting current market rates, the fair value of its long-term debt obligations under its revolving credit facility and senior subordinated notes payable approximate the carrying values at December 31, 2017 and 2016.

*Segment Information*

As a result of our August 21, 2017 acquisition of Sierra, we now operate our business structure within two segments. These segments are defined based on the internal financial reporting used by management. Certain significant selling and general and administrative expenses are not allocated to the segments. The accounting policies of the segments are the same as those described above.

**Recent Accounting Pronouncements**

*Accounting Pronouncements adopted During 2017*

The Company adopted Accounting Standards Update ("ASU") 2015-11, *Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value for entities that do not measure inventory using the last-in, first-out or a retail inventory method. The ASU eliminates the requirement to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The Company adopted this ASU effective on January 1, 2017, on a prospective basis which did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

The Company also adopted ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, effective January 1, 2017. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income tax consequences, forfeitures, and classification on the statement of cash flows. Prior to adopting this ASU, all excess tax benefits resulting from exercise or settlement of share-based payment transactions were recognized in Additional paid-in capital ("APIC") and accumulated in an APIC pool. Any tax deficiencies were either offset against the APIC pool or were recognized in the income statement if no APIC pool was available. Under ASU 2016-09, all excess tax benefits and tax deficiencies are recognized as an income tax benefit or expense in the income statement prospectively and prior periods have not been adjusted. A cumulative-effect adjustment to retained earnings was recorded for tax benefits that were not previously recognized because the related tax deduction had not reduced taxes payable; however, the cumulative-effect adjustment was fully offset by an increase to the valuation allowance. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. Excess tax benefits will be recognized regardless of whether the benefit reduces taxes payable in the current period. In addition, previous guidance required entities to estimate forfeitures when computing share-based compensation. Pursuant to ASU 2016-09, the Company elected to recognize forfeitures as they occur, which did not materially impact our financial statements. Prior guidance also required that excess tax benefits be presented as a cash inflow from financing activities and a cash outflow from operating activities. This ASU simplifies the presentation of excess tax benefits on the statements of cash flow requiring that excess tax benefits be classified along with other income tax cash flows as an operating activity which did not impact our condensed consolidated statements of cash flows.

*Accounting Pronouncements Not Yet Adopted*

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB announced a decision to defer the effective date of this ASU. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). The Company plans to adopt ASU 2014-09 effective at the beginning of fiscal 2018 and apply the modified retrospective approach.

The Company has evaluated the impact of this ASU on the specific areas that apply to the Company and their potential impact to its processes, accounting, financial reporting, disclosures, and controls. The Company has determined that the overall impact of adopting this ASU will not be material to the Company's consolidated financial statements. The Company has identified current customer agreements open at December 31, 2017 and determined that, using the modified retrospective method, the cumulative effect of this change in accounting principle is immaterial. This ASU will primarily involve updating revenue related internal control documentation and expanding revenue disclosures in our periodic filings.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which revises the accounting related to lessor and lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset ("ROU") for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The provisions of ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with certain practical expedients available. Early adoption is permitted. Since the effective date will not be until January 1, 2019, there is no immediate impact on the financial statements. Leases previously defined as capital leases will continue to be defined as a capital lease with no material changes to the accounting methodology. The Company is performing an assessment of its leases and has begun preparations for implementation and restrospective application to the earliest reporting period. Under the new guidance, leases previously defined as operating leases will be defined as financing leases and capitalized if the term is greater than one year. As a result, financing leases will be recorded as an asset and a corresponding liability at the present value of the total lease payments. The asset will be decremented over the life of the lease on a pro-rata basis resulting in lease expense while the liability will be decremented using the interest method (ie. principal and interest). As such, the Company expects the new guidance will materially impact the asset and liability balances of the Company's consolidated financial statements and related disclosures at the time of adoption. Some of our current operating leases will expire prior to the adoption date. The Company anticipates renegotiating these operating leases; however, the terms which may exist at the adoption date are currently unknown. Subsequent to year end, the Company renewed its largest operating lease for the Distribution Center in Utah. The expected liability and corresponding ROU based upon the present value of the remaining rental payments for all leases that have terms that extend beyond the adoption date is approximately $800. For the remaining leases which we expect to renew and have terms that go beyond the adoption date, the amounts we expect to recognize as additional liabilities and corresponding ROU assets based upon the present value of the remaining rental payments, are considered immaterial. The Company is unable to estimate the impact that leases which will require renegotiation will have on the financial statements on the date of adoption

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which clarifies the treatment of several cash flow categories. In addition, ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017 with early adoption permitted. The Company does not believe the adoption of this guidance will have a material impact on the Company's consolidated statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This ASU is effective for fiscal years beginning January 1, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company does not believe the adoption of this guidance will have a material impact on the Company's consolidated statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The standard simplifies the accounting for goodwill impairment by requiring a goodwill impairment to be measured using a single step impairment model, whereby the impairment equals the difference between the carrying amount and the fair value of the specified reporting units in their entirety. This eliminates the second step of the current impairment model that requires companies to first estimate the fair value of all assets in a reporting unit and measure impairments based on those fair values and a residual measurement approach. It also specifies that any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. We will adopt this standard no later than the effective date of January 1, 2020 on a prospective basis. The impact of the new standard will be dependent on the specific facts and circumstances of future individual impairments, if any.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718) Scope of Modification Accounting*, which clarifies that an entity should account for the effects of a modification unless the fair value, vesting terms and classification as liability or equity of the modified and original awards do not change on the modification date. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this update should be applied using a prospective transition method. The Company does not believe the adoption of this guidance will have a material impact on the Company's consolidated statements and related disclosures.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. This standard enables entities to better portray the economics of their risk management activities in the financial statements and enhances the transparency and understandability of hedge results through improved disclosures. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted. We intend to adopt the new guidance in the first quarter of 2019. The primary impact of adoption is the required disclosure changes. We believe that other comprehensive income (loss) could be materially impacted; however, since the majority of our current contracts will expire prior to the effective date, we cannot fully assess the financial impact of this pronouncement at this time.

**(in thousands, except per share amounts)**

**NOTE 2. ACQUISITION**

On August 21, 2017, the Company, through Everest/Sapphire Acquisition, LLC ("Everest/Sapphire"), a Delaware limited liability company and wholly owned subsidiary of Clarus, acquired 100% of the outstanding membership interests of Sierra Bullets, L.L.C., a manufacturer of a wide range of bullets primarily for both rifles and pistols, pursuant to the terms of the purchase and sale agreement dated August 21, 2017 (the "Purchase Agreement"), by and among Everest/Sapphire, Sierra Bullets, BHH Management, Inc., a California corporation ("BHH"), Lumber Management, Inc., a Delaware corporation ("LMI" and, together with BHH, each a "Seller" and, collectively, the "Sellers"), and BHH, in its capacity as the representative of Sellers (the "Sellers' Representative"). Under the terms of the Purchase Agreement, Everest/Sapphire acquired Sierra for an aggregate purchase price of $79,000, plus or minus a preliminary working capital adjustment, in accordance with and subject to the terms and conditions set forth in the Purchase Agreement. The Company has not finalized the working capital adjustment as of December 31, 2017.

The Company believes the acquisition of Sierra is expected to provide the Company with the following benefits:

- greater combined global revenue base;
- increased diversification and seasonal balance;
- increased gross margins, profitability and free cash flows;
- advance the development, marketing and distribution of products; and
- access to increased liquidity to further acquire and grow businesses.

We are currently waiting for information needed to finalize our working capital adjustment which could affect the recorded purchase consideration and goodwill. The following table is a reconciliation to the fair value of the purchase consideration and how the purchase consideration is allocated to assets acquired and liabilities assumed which have been estimated at their fair values. The excess of purchase consideration over the assets acquired and liabilities assumed is recorded as goodwill. Since our initial allocation, we have increased the fair value of inventory by $625 and property and equipment by $86 and decreased amortizable definite lived intangible assets by ($300) and goodwill by ($411). These adjustments were made after receiving certain information, which existed as of the date of acquisition, related to the fair value of acquired inventory, property and equipment, and amortizable definite lived intangible assets and such adjustments were recorded during the fourth quarter.

| | | Estimated Fair Value |
|---|---|---|
| **Total Purchase Consideration** | $ | 79,239 |
| | | |
| **Assets Acquired and Liabilities Assumed** | | |
| **Assets** | | |
| Cash | $ | 1 |
| Accounts receivable | | 2,686 |
| Inventories | | 12,299 |
| Prepaid and other current assets | | 128 |
| Property and equipment | | 13,292 |
| Amortizable definite lived intangible assets | | 15,500 |
| Identifiable indefinite lived intangible assets | | 18,900 |
| Goodwill | | 17,745 |
| Other long-term assets | | 15 |
| **Total Assets** | | 80,566 |
| | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | | 1,327 |
| **Total Liabilities** | | 1,327 |
| | | |
| **Net Book Value Acquired** | $ | 79,239 |

The gross amount of accounts receivable is $2,732 of which $46 is deemed to be not collectible. The estimated fair value of inventory was recorded at expected sales price less cost to sell plus a reasonable profit margin for selling efforts.

In connection with the acquisition, the Company acquired exclusive rights to Sierra's trade names and trademarks, customer relationships, and product technologies. The amounts assigned to each class of intangible asset, other than goodwill acquired, and the related weighted average useful lives are as follows:

**(in thousands, except per share amounts)**

| | | Gross | Weighted Average Useful Life |
|---|---|---|---|
| **Intangibles subject to amortization** | | | |
| Customer relationships | $ | 11,900 | 15.0 years |
| Product technologies | | 2,500 | 10.0 years |
| Trade name / trademark | | 1,100 | 10.0 years |
| **Intangibles not subject to amortization** | | | |
| Trade names and trademarks | | 18,900 | N/A |
| | $ | 34,400 | 13.8 years |

The weighted-average period before the next renewal of trade names and trademarks not subject to amortization is approximately 5.8 years. The fair value of Sierra's assembled workforce and buyer-specific synergies has been included in goodwill. According to Revenue Ruling 99-6, the acquisition of a limited liability company is treated as a purchase of assets for tax purposes. As such, the basis in the assets of Sierra is equal for both book and tax, which results in no initial recognition of deferred tax assets or liabilities. Furthermore, the full amount of goodwill recorded of $17,745 is expected to be deductible for tax purposes. No pre-existing relationships existed between Clarus and the Sellers prior to the acquisition.

**Pro Forma Results**

The following pro forma results are based on the individual historical results of the Company and Sierra, with adjustments to give effect as if the acquisition and borrowings used to finance the acquisition had occurred on January 1, 2016, after giving effect to certain adjustments including the amortization of intangible assets, depreciation of fixed assets, the Sellers' management fees, interest expense and taxes and assumes the purchase price was allocated to the assets purchased and liabilities assumed based on their fair market values at the date of purchase.

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| Sales | $ | 191,187 | $ | 182,175 |
| Net income (loss) | $ | 6,604 | $ | (1,736) |
| Net income (loss) per share - basic | $ | 0.22 | $ | (0.06) |
| Net income (loss) per share - diluted | $ | 0.22 | $ | (0.06) |

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred had the transaction been consummated as of January 1, 2016. Furthermore, such pro forma information is not necessarily indicative of future operating results of the combined companies, and should not be construed as representative of the operating results of the combined companies for any future dates or periods.

Material nonrecurring adjustments excluded from the pro forma financial information above consists of $2,170 transaction and merger and integration costs and the $3,147 step up of Sierra inventory to its preliminary fair value, which is expected to be recorded as an unfavorable adjustment to cost of goods sold during the six months following the acquisition date.

**NOTE 3. DISCONTINUED OPERATIONS**

As discussed above in Note 1, the Company completed the sale of certain assets to Samsonite LLC comprising Gregory Mountain Product's business during the year ended December 31, 2014. The Company performed certain transition services related to the sale of GMP and received $0, $0, and $232, which were recorded as a reduction of selling, general and administrative expenses in our consolidated financial statements during the years ended December 31, 2017, 2016, and 2015, respectively.

**(in thousands, except per share amounts)**

Additionally, as discussed above in Note 1, on October 7, 2015, the Company sold POC. The Company received $63,639 in cash for the POC Disposition and paid $2,946 in transaction fees for net proceeds of $60,693. $739 of cash was sold as part of the transaction. Also, as of December 31, 2015, there was an unsettled working capital adjustment of $921 owed to Dainese which was paid during the three months ended March 31, 2016. The Company recognized a pre-tax gain on such sale of $8,436. The Company performed certain transition services related to the POC Disposition and received $0, $324, and $270 during the years ended December 31, 2017, 2016, and 2015, respectively, which was recorded as a reduction of selling, general and administrative expenses in our consolidated financial statements for such periods.

Summarized results of discontinued operations for POC are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Sales | $ - | $ - | $ 26,179 |
| Cost of goods sold | - | - | (13,124) |
| Selling, general and administrative | - | - | (11,081) |
| Interest expense, net | - | - | (66) |
| Other, net | - | - | 281 |
| Income from operations of discontinued operations | - | - | 2,189 |
| Gain on sale of discontinued operations | - | - | 8,436 |
| Income before taxes | - | - | 10,625 |
| Income tax expense | - | - | 61 |
| Income from discontinued operations, net of tax | $ - | $ - | $ 10,564 |

There was no interest allocated to discontinued operations in our consolidated financial statements for the year ended December 31, 2015.

Summarized cash flow information for POC discontinued operations are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Depreciation of property and equipment | - | - | 423 |
| Amortization of intangible assets | - | - | 866 |
| Stock-based compensation | - | - | (645) |
| Purchase of property and equipment | - | - | (671) |

**NOTE 4. INVENTORIES**

Inventories, as of December 31, 2017 and December 31, 2016, were as follows:

| | December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Finished goods | $ 46,729 | $ 36,968 |
| Work-in-process | 5,194 | 1,677 |
| Raw materials and supplies | 6,215 | 6,765 |
| | $ 58,138 | $ 45,410 |

**(in thousands, except per share amounts)**

## NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net as of December 31, 2017 and December 31, 2016, were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Land | $ 3,160 | $ 2,850 |
| Building and improvements | 6,800 | 4,169 |
| Furniture and fixtures | 3,822 | 3,074 |
| Computer hardware and software | 4,897 | 4,519 |
| Machinery and equipment | 19,764 | 11,144 |
| Construction in progress | 721 | 522 |
| | 39,164 | 26,278 |
| Less accumulated depreciation | (14,819) | (15,223) |
| | $ 24,345 | $ 11,055 |

Depreciation expense for continuing operations was $2,883, $2,264, and $3,039 for the years ended December 31, 2017, 2016, and 2015, respectively.

## NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

There was a decrease in goodwill related to the Black Diamond segment during the year ended December 31, 2015 due to the impairment of goodwill. During the fourth quarter of the year ended December 31, 2015, there was a decrease in the Company's market capitalization which was determined to be a triggering event for potential goodwill impairment. Accordingly, the Company performed a goodwill impairment analysis. The Company utilized the market capitalization, plus a reasonable control premium to estimate the fair value. Our total stockholders' equity exceeded the estimated fair value by $32,754. The failure of step one of the goodwill impairment test triggered a step two impairment test. As a result of step two of the impairment test, the Company determined the implied fair value of goodwill and concluded that the carrying value of goodwill exceeded its implied fair value as of December 31, 2015. Accordingly, an impairment charge of $29,507, which represents a full impairment charge, was recognized in the fourth quarter of 2015. As of December 31, 2016, there was no goodwill recorded.

There was an increase in goodwill during the year ended December 31, 2017 to $17,745, due to the Company's acquisition of Sierra on August 21, 2017. Based on the results of the Company's annual impairment tests completed during the fourth quarter, the Company determined that goodwill was not impaired. The following table summarizes the changes in goodwill:

| | Black Diamond | Sierra | Total |
|---|---|---|---|
| Balance at December 31, 2015 | $ - | $ - | $ - |
| Balance at December 31, 2016 | $ - | $ - | $ - |
| Increase due to acquisition | - | 17,745 | 17,745 |
| Balance at December 31, 2017 | $ - | $ 17,745 | $ 17,745 |

**(in thousands, except per share amounts)**

**Indefinite Lived Intangible Assets**

The Company owns certain tradenames and trademarks which provide Black Diamond Equipment, PIEPS and Sierra with the exclusive and perpetual rights to manufacture and sell their respective products. Tradenames and trademarks are not amortized, but reviewed annually for impairment or upon the existence of a triggering event. There was an increase in tradenames and trademarks during the year ended December 31, 2017 due to the Company's acquisition of Sierra and the impact of foreign currency exchange rates. Based on the results of the Company's annual impairment tests, the Company determined that indefinite lived intangible assets were not impaired. The following table summarizes the changes in indefinite lived intangible assets:

| | | |
|---|---|---|
| Balance at December 31, 2016 | $ | 22,541 |
| Increase due to acquisition | | 18,900 |
| Impact of foreign currency exchange rates | | 402 |
| Balance at December 31, 2017 | $ | 41,843 |

**Other Intangible Assets, net**

Intangible assets such as certain customer relationships, core technologies, tradenames and product technologies are amortizable over their estimated useful lives. There was an increase in gross other intangible assets subject to amortization during the year ended December 31, 2017 due to the acquisition of Sierra and the impact of foreign currency exchange rates. The following table summarizes the changes in gross other intangible assets:

| | | |
|---|---|---|
| Gross balance at December 31, 2016 | $ | 16,980 |
| Increase due to acquisition | | 15,500 |
| Impact of foreign currency exchange rates | | 582 |
| Gross balance at December 31, 2017 | $ | 33,062 |

Intangible assets, net of amortization as of December 31, 2017 and December 31, 2016, were as follows:

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross | | Accumulated Amortization | | Net | Weighted Average Useful Life |
| **Intangibles subject to amortization** | | | | | | | |
| Customer relationships | $ | 26,166 | $ | (7,841) | $ | 18,325 | 15.1 years |
| Product technologies | | 4,849 | | (1,203) | | 3,646 | 12.0 years |
| Trade name / trademark | | 1,100 | | (62) | | 1,038 | 10.0 years |
| Core technologies | | 947 | | (718) | | 229 | 10.0 years |
| | $ | 33,062 | $ | (9,824) | $ | 23,238 | 14.4 years |

| | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross | | Accumulated Amortization | | Net | Weighted Average Useful Life |
| **Intangibles subject to amortization** | | | | | | | |
| Customer relationships | $ | 13,942 | $ | (5,843) | $ | 8,099 | 15.3 years |
| Product technologies | | 2,091 | | (745) | | 1,346 | 14.0 years |
| Core technologies | | 947 | | (623) | | 324 | 10.0 years |
| | $ | 16,980 | $ | (7,211) | $ | 9,769 | 14.9 years |

**(in thousands, except per share amounts)**

Amortization expense for continuing operations for the years ended December 31, 2017, 2016, and 2015, was $2,376, $1,075, and $1,245, respectively. Future amortization expense for other intangible assets as of December 31, 2017 is as follows:

| | |
|---|---|
| **2018** | 3,871 |
| **2019** | 3,538 |
| **2020** | 3,024 |
| **2021** | 2,606 |
| **2022** | 2,296 |
| **Thereafter** | 7,903 |
| | $ 23,238 |

**NOTE 7. LONG-TERM DEBT**

Long-term debt, net as of December 31, 2017 and December 31, 2016, was as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Revolving credit facility (a) | $ 20,842 | $ - |
| 5% Senior Subordinated Notes due 2017 (b) | - | 22,610 |
| Term note (c) | - | 102 |
| Unamortized discount | - | (814) |
| | 20,842 | 21,898 |
| Less current portion | - | (21,898) |
| | $ 20,842 | $ - |

(a) As of December 31, 2017, the Company had drawn $20,842 on a $40,000 revolving credit facility with ZB, N.A. dba Zions First National Bank with a maturity date of August 21, 2022.

In conjunction with the acquisition of Sierra, on August 21, 2017, the Company together with its direct and indirect domestic subsidiaries entered into a third amended and restated loan agreement (the "Third Amended and Restated Loan Agreement") with ZB, N.A. dba Zions First National Bank (the "Lender"), which matures on August 21, 2022. Under the Third Amended and Restated Loan Agreement, the Company has up to a $40,000 revolving line of credit (the "Revolving Line of Credit") pursuant to a fourth amended and restated promissory note (revolving loan) (the "Revolving Line of Credit Promissory Note"). The maximum borrowing of $40,000 (the "Maximum Borrowing") under the Revolving Line of Credit reduces by $1,250 per quarter until such time as the maximum borrowing amount is $20,000, provided, that the Company may request an increase of up to $20,000 as an accordion option (the "Accordion") to increase the Revolving Line of Credit up to the Maximum Borrowing on a seasonal or permanent basis for funding general corporate needs including working capital, capital expenditures, permitted loans or investments in subsidiaries, and the issuance of letters of credit. Availability under the Revolving Line of Credit may not exceed $30,000 unless the Company has sufficient eligible receivable, inventory and equipment assets at such time pursuant to formulas set forth in the Third Amended and Restated Loan Agreement.

All debt associated with the Third Amended and Restated Loan Agreement bears interest at one-month London Interbank Offered Rate ("LIBOR") plus an applicable margin as determined by the ratio of Total Net Debt (subject to adjustments as set forth in the Third Amended and Restated Loan Agreement) to Trailing Twelve Month Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") as follows: (i) one month LIBOR plus 4.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.75; (ii) one month LIBOR plus 3.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 2.00 and less than 2.75; (iii) one month LIBOR plus 2.00% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is greater than or equal to 1.00 and less than 2.00; and (iv) one month LIBOR plus 1.5% per annum at all times that Total Net Debt to Trailing Twelve Month EBITDA ratio is less than 1.00.

**(in thousands, except per share amounts)**

Any amount outstanding under the Third Amended and Restated Loan Agreement will be secured by a general first priority Uniform Commercial Code ("UCC") security interest in all material domestic assets of the Company and its domestic subsidiaries, including, but not limited to: accounts, accounts receivable, inventories, equipment, real property, ownership in subsidiaries, and intangibles including patents, trademarks and copyrights. Proceeds of the foregoing will be secured via pledge and control agreements on domestic depository and investment accounts not held with the Lender.

The Third Amended and Restated Loan Agreement contains certain financial covenants including restrictive debt covenants that require the Company and its subsidiaries to maintain a minimum fixed charge coverage ratio, a maximum total leverage ratio, a minimum net worth, a positive amount of asset coverage and limitations on capital expenditures, all as calculated in the Third Amended and Restated Loan Agreement.

In addition, the Third Amended and Restated Loan Agreement contains covenants restricting the Company and its subsidiaries from pledging or encumbering their assets, with certain exceptions, and from engaging in acquisitions other than acquisitions permitted by the Third Amended and Restated Loan Agreement. The Third Amended and Restated Loan Agreement contains customary events of default (with grace periods where customary) including, among other things, failure to pay any principal or interest when due; any materially false or misleading representation, warranty, or financial statement; failure to comply with or to perform any provision of the Third and Restated Loan Agreement; and default on any debt or agreement in excess of certain amounts.

(b) In connection with the Company's acquisition of Gregory on May 2010, $22,056 and $554 in subordinated notes were issued to the Gregory Stockholders. The notes have a seven year term, 5% stated interest rate payable quarterly, and are prepayable at any time. Given the below market interest rate for comparably secured notes and the relative illiquidity of the notes, we discounted the notes to $13,127 and $316, respectively, at date of acquisition. We accreted the discount on the notes to interest expense using the effective interest method over the term of the notes. During February 2017, the Company's Board of Directors approved the repayment of the Merger Consideration Subordinated Notes. On February 13, 2017, the entire principal amount and all accrued interest were paid in full. During the years ended December 31, 2017, 2016 and 2015, $814, $1,768 and $1,537, respectively, of the discounts were accreted and recorded as interest expense in the accompanying statements of comprehensive income (loss).

(c) The term loan was payable to a government entity with an interest rate of 0.75% and no monthly installments. During the year ended December 31, 2017, the entire principal amount and all accrued interest were paid in full.

The aggregate maturities of the revolving credit facility for the years subsequent to December 31, 2017 are as follows:

| | | |
|---|---|---|
| **2018** | $ | - |
| **2019** | | - |
| **2020** | | - |
| **2021** | | - |
| **2022** | | 20,842 |
| **Thereafter** | | - |
| Total future long-term debt payments | | 20,842 |
| Less amount representing debt discounts | | - |
| Total carrying amount of long-term debt | | 20,842 |
| Less current portion | | - |
| Long-term debt obligations | $ | 20,842 |

## NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's primary exchange rate risk management objective is to mitigate the uncertainty of anticipated cash flows attributable to changes in foreign currency exchange rates. The Company primarily focuses on mitigating changes in cash flows resulting from sales denominated in currencies other than the U.S. dollar. The Company manages this risk primarily by using currency forward and option contracts. If the anticipated transactions are deemed probable, the resulting relationships are formally designated as cash flow hedges. The Company accounts for these contracts as cash flow hedges and tests effectiveness by determining whether changes in the expected cash flow of the derivative offset, within a range, changes in the expected cash flow of the hedged item.

**(in thousands, except per share amounts)**

At December 31, 2017, the Company's derivative contracts had a remaining maturity of less than one and one-half years. The counterparty to these transactions had both long-term and short-term investment grade credit ratings. The maximum net exposure of the Company's credit risk to the counterparty is generally limited to the aggregate unrealized loss of all contracts with that counterparty, which is $947 as of December 31, 2017. The Company's exposure to the counterparty credit risk is limited to the aggregate unrealized gain on all contracts. At December 31, 2017, there was no such exposure to the counterparty. The Company's derivative counterparty has strong credit ratings and as a result, the Company does not require collateral to facilitate transactions.

The Company held the following contracts designated as hedged instruments as of December 31, 2017 and 2016:

| | December 31, 2017 | |
|---|---|---|
| | Notional Amount | Latest Maturity |
| Foreign exchange contracts - Norwegian Kroner | 2,629 | February 2018 |
| Foreign exchange contracts - Canadian Dollars | 9,538 | February 2019 |
| Foreign exchange contracts - British Pounds | 1,737 | February 2019 |
| Foreign exchange contracts - Euros | 15,928 | February 2019 |

| | December 31, 2016 | |
|---|---|---|
| | Notional Amount | Latest Maturity |
| Foreign exchange contracts - Canadian Dollars | 11,001 | February 2018 |
| Foreign exchange contracts - British Pounds | 1,842 | February 2018 |
| Foreign exchange contracts - Euros | 14,366 | February 2018 |

For contracts that qualify as effective hedge instruments, the effective portion of gains and losses resulting from changes in fair value of the instruments are included in accumulated other comprehensive income (loss) and reclassified to sales in the period the underlying hedged transaction is recognized. Losses of $(450) and $(351) were reclassified to sales during the years ended December 31, 2017 and 2016, respectively.

The Company records ineffectiveness of hedged instruments resulting from changes in fair value of the instruments in earnings. There were no gains (losses) recorded to Other, net, during the year ended December 31, 2017. Losses of $(42) were recorded to Other, net, associated with ineffective hedge instruments during the year ended December 31, 2016.

The following table presents the balance sheet classification and fair value of derivative instruments as of December 31, 2017 and 2016:

| | Classification | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Derivative instruments in asset positions: | | | |
| Forward exchange contracts | Prepaid and other current assets | $ 40 | $ 1,165 |
| Forward exchange contracts | Other long-term assets | $ 6 | $ 116 |
| Derivative instruments in liability positions: | | | |
| Forward exchange contracts | Accounts payable and accrued liabilities | $ 919 | $ - |
| Forward exchange contracts | Other long-term liabilities | $ 74 | $ - |

(in thousands, except per share amounts)

## NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income (loss) ("AOCI") primarily consists of foreign currency translation adjustments and changes in our forward foreign exchange contracts. The components of AOCI, net of tax, were as follows:

| | Foreign Currency Translation Adjustments | Unrealized Gains (Losses) on Cash Flow Hedges | Total |
|---|---|---|---|
| Balance as of December 31, 2016 | $ (1,729) | $ 724 | $ (1,005) |
| Other comprehensive income (loss) before reclassifications | 2,836 | (2,210) | 626 |
| Amounts reclassified from other comprehensive income (loss) | (202) | 1,080 | 878 |
| Net current period other comprehensive income (loss) | 2,634 | (1,130) | 1,504 |
| Balance as of December 31, 2017 | $ 905 | $ (406) | $ 499 |

The effects on net loss of amounts reclassified from unrealized gains (losses) on cash flow hedges for foreign exchange contracts and foreign currency translation adjustments for the year ended December 31, 2017 were as follows:

| Affected line item in the Condensed Consolidated Statement of Comprehensive Income (Loss) | Gains (losses) reclassified from AOCI to the Condensed Consolidated Statement of Comprehensive Income (Loss) |
|---|---|
| **Foreign exchange contracts:** | |
| Sales | $ (450) |
| Less: Income tax expense | 630 |
| Amount reclassified, net of tax | (1,080) |
| **Foreign currency translation adjustments:** | |
| Other, net | 202 |
| Total reclassifications from AOCI | $ (878) |

The Company's policy is to classify reclassifications of cumulative foreign currency translation from AOCI to Other, net.

## NOTE 10. FAIR VALUE MEASUREMENTS

We measure certain financial assets and liabilities at fair value on a recurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, under a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1- inputs to the valuation methodology are quoted market prices for identical assets or liabilities in active markets.

Level 2- inputs to the valuation methodology include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3- inputs to the valuation methodology are based on prices or valuation techniques that are unobservable.

**(in thousands, except per share amounts)**

Assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and December 31, 2016 were as follows:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Forward exchange contracts | - | 46 | - | 46 |
| | $ - | $ 46 | $ - | $ 46 |
| **Liabilities** | | | | |
| Forward exchange contracts | $ - | $ 993 | $ - | $ 993 |
| | $ - | $ 993 | $ - | $ 993 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Forward exchange contracts | $ - | $ 1,281 | $ - | $ 1,281 |
| | $ - | $ 1,281 | $ - | $ 1,281 |
| **Liabilities** | | | | |
| Forward exchange contracts | $ - | $ - | $ - | $ - |
| | $ - | $ - | $ - | $ - |

Derivative financial instruments are recorded at fair value based on current market pricing models. No nonrecurring fair value measurements existed at December 31, 2017 and December 31, 2016.

**NOTE 11. EARNINGS PER SHARE**

Basic earnings (loss) per share is computed by dividing earnings (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per share is computed by dividing earnings (loss) by the total of the weighted average number of shares of common stock outstanding during each period, plus the effect of dilutive outstanding stock options and unvested restricted stock grants. Potentially dilutive securities are excluded from the computation of diluted earnings per share if their effect is anti-dilutive to the loss from continuing operations.

**(in thousands, except per share amounts)**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Weighted average shares outstanding - basic | 30,022 | 30,397 | 32,600 |
| Effect of dilutive stock awards | - | - | - |
| Weighted average shares outstanding - diluted | 30,022 | 30,397 | 32,600 |
| Loss from continuing operations per share: | | | |
| Basic | $ (0.02) | $ (0.30) | $ (2.70) |
| Diluted | (0.02) | (0.30) | (2.70) |
| Income from discontinued operations per share: | | | |
| Basic | $ - | $ - | $ 0.32 |
| Diluted | - | - | 0.32 |
| Net loss per share: | | | |
| Basic | $ (0.02) | $ (0.30) | $ (2.38) |
| Diluted | (0.02) | (0.30) | (2.38) |

For the years ended December 31, 2017, 2016, and 2015, equity awards of 3,009, 2,467, and 3,074, respectively, were outstanding and anti-dilutive and therefore not included in the calculation of loss per share for these periods.

**NOTE 12. STOCK-BASED COMPENSATION PLAN**

Under the Company's current 2015 Stock Incentive Plan (the "2015 Plan") and the previous 2005 Stock Incentive Plan (the "2005 Plan"), the Company's Board of Directors (the "Board of Directors") has flexibility to determine the type and amount of awards to be granted to eligible participants, who must be employees, directors, officers or consultants of the Company or its subsidiaries. The 2015 Plan allows for grants of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, and restricted units. The aggregate number of shares of common stock that may be granted through awards under the 2015 Plan to any employee in any calendar year may not exceed 500 shares. The 2005 Plan continued in effect until June 2015 when it expired in accordance with its terms. The 2015 Plan will continue in effect until December 2025 unless terminated sooner. As of December 31, 2017, the number of shares authorized and reserved for issuance under the 2015 Plan is 6,153, subject to automatic annual increase equal to 5% of the total number of shares of the Company's outstanding common stock.

**Options Granted:**

During the year ended December 31, 2017, the Company issued stock options for an aggregate of 463 shares under the 2015 Plan to directors and employees of the Company. Of the 463 options issued, 38 options vest in four equal consecutive quarterly tranches from the date of grant. 325 vest in three equal tranches on December 31, 2017, December 31, 2018 and December 31, 2019. The remaining 100 options vested immediately.

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

**(in thousands, except per share amounts)**

| | **2017** | | **2016** | **2015** | |
|---|---|---|---|---|---|
| Number of options | 363 | 100 | 163 | 103 | 90 |
| Option vesting period | 1-2 Years | Immediate | 1-3 Years | 1 - 4 Years | Immediate |
| Grant price | \$6.10 - \$6.15 | \$6.10 | \$4.38 - \$4.39 | \$4.41 - \$6.67 | \$8.35 |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.0% | 0.0% |
| Expected volatility | 41.9% - 42.2% (a) | 46.9% (a) | 43.0% - 44.6% (a) | 45.0% - 53.0% (b) | 44.4% (b) |
| Risk-free interest rate | 1.80% | 1.41% | 1.14% - 1.23% | 1.56% - 2.11% | 1.56% |
| Expected life (years) (c) | 5.31 - 5.33 | 2.75 | 5.31 - 6.00 | 5.31 - 6.58 | 5.00 |
| Weighted average fair value | \$2.45 - \$2.49 | \$1.20 | \$1.81 - \$1.85 | \$1.85 - \$3.53 | \$0.97 |

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

(b) Since a sufficient period of historical volatility did not exist, the Company's expected volatility was based on a combination of the Company's available historical volatility and the historical volatility of a peer group of companies within similar industries and similar size as the Company.

(c) Because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for these grants, the Company utilized the simplified method in developing an estimate of the expected term of these options.

Using these assumptions, the fair value of the stock options granted during the years ended December 31, 2017, 2016, and 2015 was \$1,020, \$299, and \$320, respectively, which will be amortized over the vesting period of the options.

On June 1, 2017, the Company issued and granted to an employee a restricted stock award of 500 restricted shares under the 2015 Plan, of which (i) 250 restricted shares will vest if, on or before June 1, 2022, the Fair Market Value (as defined in the Plan) of the Company's common stock shall have equaled or exceeded \$10.00 per share for twenty consecutive trading days; and (ii) 250 restricted shares will vest if, on or before June 1, 2022, the Fair Market Value (as defined in the Plan) of the Company's common stock shall have equaled or exceeded \$12.00 per share for twenty consecutive trading days. For computing the fair value of the 500 restricted shares with a market condition, the fair value of each restricted stock award grant has been estimated as of the date of grant using the Monte-Carlo pricing model with the assumptions below.

On July 1, 2016, the Company issued and granted to an employee a restricted stock award of 100 restricted shares under the 2015 Plan, which will vest if, on or before July 1, 2020, the Fair Market Value (as defined in the Plan) of the Company's common stock shall have equaled or exceeded \$15.00 per share for twenty consecutive trading days. For computing the fair value of the 100 restricted shares subject to a market condition, the fair value of each restricted stock award grant has been estimated as of the date of grant using the Monte-Carlo pricing model with the assumptions below.

**Market Condition Restricted Shares Granted**

| | **June 1, 2017** | | **July 1, 2016** |
|---|---|---|---|
| Number issued | 250 | 250 | 100 |
| Vesting period | \$10.00 stock price target | \$12.00 stock price target | \$15.00 stock price target |
| Grant price | \$6.10 | \$6.10 | \$4.38 |
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Expected volatility | 42.4% | 42.4% | 44.1% |
| Risk-free interest rate | 1.76% | 1.76% | 0.86% |
| Weighted average fair value | \$4.30 | \$3.68 | \$1.05 |

Using these assumptions, the fair value of the market condition restricted stock awards granted on June 1, 2017 was approximately \$1,995 and July 1, 2016 was approximately \$105.

**(in thousands, except per share amounts)**

The total non-cash stock compensation expense for continuing operations related to stock options and restricted stock awards recorded by the Company was as follows:

| | Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Restricted stock awards | $ 658 | $ 15 | $ 264 |
| Stock options | 523 | 212 | 830 |
| Total | $ 1,181 | $ 227 | $ 1,094 |

For the years ended December 31, 2017, 2016, and 2015, the majority of stock-based compensation costs were classified as selling, general and administrative expense. A summary of changes in outstanding options and restricted stock awards during the year ended December 31, 2017 is as follows:

| | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value | Restricted Stock Awards |
|---|---|---|---|---|
| Outstanding at December 31, 2016 | 2,097 | $ 8.15 | $ - | 370 |
| Granted | 463 | 6.14 | | 500 |
| Exercised or vested | (29) | 6.29 | | - |
| Expired | (249) | 9.38 | | - |
| Cancelled | (100) | 5.98 | | - |
| Forfeited | (23) | 9.67 | | (20) |
| Outstanding at December 31, 2017 | 2,159 | $ 7.68 | $ 367 | 850 |
| Options exercisable at December 31, 2017 | 1,792 | 8.05 | $ - | |

The following table summarizes the exercise price range, weighted average exercise price, and remaining contractual lives by significant ranges for options outstanding and exercisable as of December 31, 2017:

| | | | Remaining Life In Years | | Weighted Average |
|---|---|---|---|---|---|
| Exercise Price Range | Outstanding | Exercisable | Outstanding | Exercisable | Exercise Price |
| $4.00 - $6.49 | 770 | 428 | 7.8 | 7.8 | $ 5.43 |
| $6.49 - $13.38 | 1,389 | 1,364 | 5.1 | 5.1 | $ 8.87 |
| | 2,159 | 1,792 | 6.0 | 6.0 | $ 8.05 |

The intrinsic value of options exercised and restricted stock awards vested was $28, $18, and $474 during the years ended December 31, 2017, 2016, and 2015, respectively. Total fair value of shares vested during the years ended December 31, 2017, 2016, and 2015 was $1,123, $938, and $5,490, respectively.

The fair value of unvested restricted stock awards is determined based on the market price of our shares of common stock on the grant date or using the Monte-Carlo pricing model. As of December 31, 2017, there were 367 unvested stock options and unrecognized compensation cost of $988 related to unvested stock options, as well as 850 unvested restricted stock awards and unrecognized compensation cost of $1,391 related to unvested restricted stock awards. Unrecognized compensation cost of unvested stock options and restricted stock awards are expected to be recognized over the weighted average period of less than one year.

## NOTE 13. RESTRUCTURING

The Company initiated a restructuring plan in 2014 (the “2014 Restructuring Plan”) to realign resources within the organization and completed the plan during the year ended December 31, 2016. During the years ended December 31, 2017, 2016 and 2015, we incurred $0, $30, and $2,356, respectively, of restructuring charges related to the 2014 Restructuring Plan. We have incurred $5,969 of cumulative restructuring charges since the commencement of the 2014 Restructuring Plan.

**(in thousands, except per share amounts)**

As part of the conclusion of the Company's review of strategic alternatives, the Company initiated restructuring activities in efforts to further realign resources within the organization (the "2015 Restructuring Plan") and anticipates completing the plan in 2018. During the year ended December 31, 2017, 2016 and 2015, we incurred $160, $1,365 and $1,019, respectively, of restructuring charges related to the 2015 Restructuring Plan. We have incurred $2,544 of cumulative restructuring charges since the commencement of the 2015 Restructuring Plan. We estimate that we will incur an immaterial amount of costs during the year 2018.

The following table summarizes the restructuring charges, payments and the remaining accrual related to employee termination costs and facility costs:

| | 2015 Restructuring Plan |
|---|---|
| Balance at December 31, 2016 | $ 96 |
| Charges to expense: | |
| Other costs | 160 |
| Total restructuring charges | 160 |
| Cash payments and non-cash charges: | |
| Cash payments | (163) |
| Balance at December 31, 2017 | $ 93 |

As of December 31, 2017, termination costs and restructuring costs remained in accrued liabilities and are expected to be paid throughout 2018.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

The Company is involved in various legal disputes and other legal proceedings that arise from time to time in the ordinary course of business. Based on currently available information, the Company does not believe that it is reasonably possible that the disposition of any of the legal disputes the Company or its subsidiaries is currently involved in will have a material adverse effect upon the Company's consolidated financial condition, results of operations or cash flows. There is a reasonable possibility of loss from contingencies in excess of the amounts accrued by the Company in the accompanying consolidated balance sheets; however, the actual amounts of such possible losses cannot currently be reasonably estimated by the Company at this time. It is possible that, as additional information becomes available, the impact on the Company could have a different effect.

During the year ended December 31, 2016, the Company received an arbitral award on agreed terms of $1,967, related to certain claims against the former owner of PIEPS associated with the voluntary recall of all of the PIEPS VECTOR avalanche transceivers during the year ended December 31, 2013. This concludes the arbitration in its entirety.

The Company leases office, warehouse and distribution space under non-cancelable operating leases. As leases expire, it can be expected that, in the normal course of business, certain leases will be renewed or replaced. Certain lease agreements include escalating rents over the lease terms. The Company expenses rent on a straight-line basis over the lease term which commences on the date the Company has the right to control the property. The cumulative expense recognized on a straight-line basis in excess of the cumulative payments is included in accounts payable and accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

Total rent expense for continuing operations of the Company for the years ended December 31, 2017, 2016, and 2015 was $865, $1,033, and $1,515, respectively.

Future minimum lease payments required under noncancelable operating leases that have initial or remaining noncancelable lease term in excess of one year at December 31, 2017 are as follows:

| | |
|---|---|
| **2018** | $ 391 |
| **2019** | 212 |
| **2020** | 134 |
| **2021** | 76 |
| **2022** | 21 |
| **Thereafter** | - |
| | $ 834 |

**NOTE 15. INCOME TAXES**

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company is subject to income taxes in certain foreign jurisdictions which creates deferred tax assets and liabilities in these jurisdictions. The Company has netted these deferred tax assets and deferred tax liabilities by jurisdiction. Deferred income tax assets are reviewed for recoverability and valuation allowances are provided when it is more likely than not that a deferred tax asset is not realizable in the future.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). As a result of the Tax Act, the Company has recorded a discrete net tax benefit of $6,086 in the period ending December 31, 2017. The primary components are discussed throughout Note 15.

Reduction of U.S. federal corporate tax rate: The Tax Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company has revalued its deferred tax assets and liabilities and recorded a corresponding adjustment to deferred income tax benefit of $1,067 for the year ended December 31, 2017.

Alternative Minimum Tax (“AMT”): As a result of the Tax Act, the corporate AMT was repealed. In addition, taxpayers with AMT credit carryovers in excess of their regular tax liability may have the credits refunded over multiple years from 2018 to 2022. However, AMT transactions, including refunds, are subject to sequestration by the Office of Management Budget. As a result, the Company has reclassed its AMT credit carryforward to an other long-term asset and reduced the estimated refund to account for the effects of the sequester. This provisional adjustment resulted in additional tax benefit of $507 due to releasing previously valued AMT credits.

Transition Tax: The Transition Tax is a tax on previously untaxed accumulated and current earnings and profits of certain of the Company’s foreign subsidiaries. At the time of measurement, the foreign subsidiaries had an accumulated earnings and profits deficit, which resulted in no additional tax liability.

The SEC staff issued Staff Accounting Bulletin ("SAB") 118 which allows companies to record provisional amounts during a measurement period that is similar to the measurement period used when accounting for business combinations. The Company has two matters related to the Tax Act that were recorded as provisional under SAB 118. The first provisional matter relates to the Transition Tax and a dividend paid by Ember to Clarus. Under the Transition Tax, all activity should be added back to the accumulated earnings and profits of specified foreign corporations (“SFC”) in order to calculate the Transition Tax. However, the dividend from Ember created a de facto liquidation. The guidance is unclear as to whether a liquidating dividend should be added back to accumulating earnings and profits, or if, due to the de facto liquidation, the company did not exist as of the date of measurement. The Company has not added the dividend back to the Transition Tax calculation, and had it done so, it would have resulted in a tax benefit of approximately $2,500 due to offsetting accumulated earnings and profits deficits of other SFCs. With additional guidance from the IRS, this position could change and impact the overall tax provision.

The second provisional matter relates to the measurement of valuation allowance on net deferred tax assets that create future indefinite net operating losses, which can be offset by indefinite deferred tax liabilities and thus be considered as a source of future taxable income. In several states in which the Company operates, the states’ position is to conform to Federal tax legislation, however in practice no formal declaration is made by the states upon tax legislation changes. It is unclear at this time whether states have conformed to the Tax Act or adopted their own laws to address the federal changes. On a provisional basis, the Company has released federal valuation allowance of $4,512. If the Company had released the state valuation allowance, it would have resulted in an incremental tax benefit of approximately $400.

The Company’s foreign operations that are considered to be permanently reinvested have statutory tax rates of approximately 25%.

**(in thousands, except per share amounts)**

The Company recognizes interest expense and penalties related to income tax matters in income tax expense.

The Company releases residual tax effects in accumulated other comprehensive income through continuing operations as the underlying asset matures or expires.

Consolidated (loss) income from continuing operations before income taxes consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| U.S. operations | $ (4,794) | $ (9,324) | $ (32,419) |
| Foreign operations | (966) | 1,011 | (7,995) |
| Loss before income tax | $ (5,760) | $ (8,313) | $ (40,414) |

The components of the provision (benefit) for income taxes attributable to continuing operations consist of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Current: | | | |
| Federal | $ 255 | $ - | $ (2,220) |
| State and local | - | (21) | (372) |
| Foreign | 150 | 1,183 | 5 |
| | 405 | 1,162 | (2,587) |
| Deferred: | | | |
| Federal | 16,752 | (3,058) | 1,944 |
| State and local | (374) | (490) | 326 |
| Foreign | (110) | (125) | (849) |
| | 16,268 | (3,673) | 1,421 |
| Change in valuation allowance for deferred income taxes | (21,760) | 3,176 | 48,858 |
| | (5,492) | (497) | 50,279 |
| | | | |
| Income tax expense (benefit) | $ (5,087) | $ 665 | $ 47,692 |

The allocation of income tax expense (benefit) was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Continuing operations | $ (5,087) | $ 665 | $ 47,692 |
| Discontinued operations | - | - | 61 |
| | $ (5,087) | $ 665 | $ 47,753 |

**(in thousands, except per share amounts)**

The following is a reconciliation of the statutory federal income tax rate to the effective rate reported in the Company's financial statements:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Statutory income tax benefit | (34.0)% | (34.0)% | (34.0)% |
| Increase (decrease) in income taxes resulting from: | | | |
| Foreign taxes | 1.7 | 8.8 | 1.4 |
| State income taxes, net of federal income taxes | (2.3) | (2.8) | 0.3 |
| Income tax credits | (5.0) | (5.5) | (3.3) |
| Incentive stock options | 5.5 | 0.6 | 0.5 |
| Change in effective state rate | (1.5) | (0.3) | 0.1 |
| Undistributed earnings of foreign subsidiaries | - | (1.0) | 8.4 |
| Impairment of goodwill | - | - | 24.8 |
| Translation loss | (6.9) | - | - |
| Impact of tax reform | (105.7) | - | - |
| Other | 3.3 | 4.0 | (1.1) |
| Change in valuation allowance | 56.6 | 38.2 | 120.9 |
| Income tax expense (benefit) | (88.3)% | 8.0% | 118.0% |

Deferred income tax assets and liabilities are determined based on the difference between the financial reporting carrying amounts and tax bases of existing assets and liabilities and operating loss and tax credit carryforwards. Significant components of the Company's existing deferred income tax assets and liabilities as of December 31, 2017 and 2016 are as follows:

| | December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Deferred tax assets: | | |
| Net operating loss, capital loss amount and research & experimentation credit carryforwards | $ 46,760 | $ 69,662 |
| Non-cash compensation | 1,544 | 2,292 |
| Accrued liabilities | 270 | 658 |
| Reserves and other | 2,037 | 2,599 |
| Intangibles | 121 | 205 |
| | 50,732 | 75,416 |
| Valuation allowance | (45,811) | (67,662) |
| Net deferred tax assets | 4,921 | 7,754 |
| Deferred tax liabilities: | | |
| Depreciation | (663) | (974) |
| Discount on notes | - | (299) |
| Intangibles | (7,672) | (11,218) |
| Other | (252) | (4,229) |
| | (8,587) | (16,720) |
| Total | $ (3,666) | $ (8,966) |

**(in thousands, except per share amounts)**

As of December 31, 2017, the Company's gross deferred tax asset was $50,732. The Company has recorded a valuation allowance of $45,811, resulting in a net deferred tax asset of $4,921, before deferred tax liabilities of $8,587. The Company has provided a valuation allowance against a portion of the deferred tax assets as of December 31, 2017, because the ultimate realization of those assets does not meet the more likely than not criteria. The majority of the Company's deferred tax assets consist of net operating loss carryforwards for federal tax purposes. If a change in control were to occur, these could be limited under Section 382 of the Internal Revenue Code of 1986 ("Code"), as amended.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating loss and credit carryforwards expire. The estimates and judgments associated with the Company's valuation allowance on deferred tax assets are considered critical due to the amount of deferred tax assets recorded by the Company on its consolidated balance sheet and the judgment required in determining the Company's future taxable income. The need for a valuation allowance is reassessed at each reporting period. During the year ended December 31, 2015, the Company recorded an increase to its valuation allowance of $48,858. Certain events and circumstances as explained below transpired during the third quarter of the year ended December 31, 2015, which caused the Company to conclude that the realization of some portion of its deferred tax assets does not satisfy the more-likely-than-not threshold. The POC Disposition removed a substantial portion of the Company's projected future taxable income. Additionally, during the year ended December 31, 2015, the Company made the decision to scale back its apparel initiative and announced a realignment of resources. The totality of these events and circumstances impedes management's ability to forecast future long-term taxable income to the extent that it does not meet the more-likely-than-not threshold.

For tax years beginning after December 31, 2017, net operating losses generated will be carried forward indefinitely, thus creating an indefinite deferred tax asset. Due to these changes in the Tax Act, management scheduled out the reversal of deferred tax assets and liabilities to determine the amount of future net operating loss carryforwards with an indefinite reversal period created and realized from future taxable income from a more-likely-than-not threshold. Based on this analysis, management determined $4,512 of valuation allowance should be released. The indefinite deferred tax asset can only offset 80% of future taxable income which is indefinite lived deferred tax liabilities. This analysis was performed before the federal rate change.

The net change in the valuation allowance for deferred income tax assets was ($21,851), $3,176, and $48,858 during the years ended December 31, 2017, 2016, and 2015, respectively. A roll forward of our valuation allowance for deferred income tax assets for the years ended December 31, 2017, 2016, and 2015 is as follows:

| | Balance at Beginning of Year | Charged to Costs and Expenses | Other Adjustments (a) | Balance at End of Year |
|---|---|---|---|---|
| 2015 | $ 15,628 | 48,858 | - | $ 64,486 |
| 2016 | $ 64,486 | $ 3,176 | $ - | $ 67,662 |
| 2017 | $ 67,662 | $ 3,166 | $ (25,017) | $ 45,811 |

(a) During the year ended December 31, 2017, the decrease in valuation allowance is due to the Tax Act.

As of December 31, 2017, the Company had net operating loss, research and experimentation credit and alternative minimum tax credit carryforwards for U.S. federal income tax purposes of $156,598, $3,452 and $0, respectively. The Company believes its U.S. Federal net operating loss ("NOL") will substantially offset its future U.S. Federal income taxes. The majority of the Company's pre-tax income is currently earned and expected to be earned in the U.S., or taxed in the U.S. as Subpart F. income and will be offset with the NOL.

NOLs available to offset taxable income, subject to compliance with Section 382 of the Code, begin to expire based upon the following schedule:

**Net Operating Loss Carryforward Expiration Dates**
**December 31, 2017**

| Expiration Dates December 31, | Net Operating Loss Amount |
|---|---|
| 2021 | $ 21,026 |
| 2022 | 115,000 |
| 2023 | 5,712 |
| 2024 | 3,566 |
| 2025 and beyond | 11,294 |
| Total | $ 156,598 |

**(in thousands, except per share amounts)**

In Q1 2017, the Company adopted ASU 2016-09 which eliminates the APIC pool retroactively. As a result, the Company recorded a deferred tax asset totaling $92 and a cumulative effect of adopting the new accounting principle to retained earnings. Since the Company was in a full valuation position, a corresponding valuation allowance was also recorded totaling $92 and an offsetting cumulative effect was also recorded to retained earnings. Accordingly, there was no net effect to retained earnings as a result of adopting ASU 2016-09.

Tax positions are recognized in the financial statements when it is more-likely-than-not that the position will be sustained upon examination by the tax authorities. The Company conducts its business globally. As a result, the Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions, and are subject to examination for the open tax years in the U.S. federal and state jurisdictions of 2013-2017 and in the foreign jurisdictions of 2005-2017. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the years ended December 31, 2017 and 2016 and are follows:

| | December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Balance, beginning of year | $ 1,135 | $ 322 |
| Additions for current year tax positions | 91 | 840 |
| Reductions for prior year tax positions | (13) | - |
| Payments in settlement | (737) | - |
| Currency translation | - | (27) |
| Balance, end of year | $ 476 | $ 1,135 |

Included in the balance of total unrecognized tax benefits at December 31, 2017 and 2016, are potential benefits of $476 and $1,135, respectively, that if recognized, would affect the effective rate, subject to impact of valuation allowance, on income from continuing operations. Unrecognized tax benefits that reduce a net operating loss, similar tax loss or tax credit carryforward are presented as a reduction to deferred income taxes. As a result, the Company classified $356 and $327 of its unrecognized tax benefit as a reduction to deferred tax assets as of December 31, 2017 and 2016, respectively.

Interest and penalty expense recognized related to uncertain tax positions amounted to $13, $183, and $2 during the years ending December 31, 2017, 2016, and 2015, respectively. Total accrued interest and penalties as of December 31, 2017 and 2016 were $6 and $185, respectively, and were included in accounts payable and accrued liabilities.

## NOTE 16. SEGMENT INFORMATION

As a result of our August 21, 2017 acquisition of Sierra, we now operate our business structure within two segments. These segments are defined based on the internal financial reporting used by management. Certain significant selling and general and administrative expenses are not allocated to the segments including non-cash stock compensation expense. Each segment is described below:

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

**(in thousands, except per share amounts)**

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

REI accounted for approximately 14%, 16% and 17% of our total sales from continuing operations for the years ended December 31, 2017, 2016, and 2015, respectively, and is included in the Black Diamond segment. No other single customer contributed more than 10% of our sales during those periods.

Financial information for our segments is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Sales to external customers: | | | |
| Black Diamond | $ 160,331 | $ 148,189 | $ 155,266 |
| Sierra | 10,356 | - | - |
| Sales to external customers | $ 170,687 | $ 148,189 | $ 155,266 |
| Segment operating income (expense): | | | |
| Black Diamond | $ 4,215 | $ 1,695 | $ 2,134 |
| Sierra | (344) | - | - |
| Segment operating income | 3,871 | 1,695 | 2,134 |
| Restructuring charge | (160) | (1,395) | (3,375) |
| Merger and integration | (82) | - | - |
| Transaction costs | (2,088) | (290) | (946) |
| Impairment of goodwill | - | - | (29,507) |
| Corporate and other expenses | (6,013) | (5,447) | (5,953) |
| Interest expense, net | (1,288) | (2,876) | (2,767) |
| Loss before income tax | $ (5,760) | $ (8,313) | $ (40,414) |

There were no intercompany sales between the Black Diamond and Sierra segments for the periods presented. Restructuring charges for the periods presented relate to the Black Diamond segment.

Total assets by segment, as of December 31, 2017 and December 31, 2016, were as follows:

| | December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Black Diamond | $ 127,202 | $ 118,712 |
| Sierra | 77,270 | - |
| Corporate | 2,977 | 91,745 |
| | $ 207,449 | $ 210,457 |

On August 21, 2017, the Company purchased Sierra. Total assets of Sierra as of August 21, 2017 were $80,566. Capital expenditures, depreciation and amortization by segment is as follows.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Capital expenditures: | | | |
| Black Diamond | $ 2,699 | $ 2,566 | $ 2,133 |
| Sierra | 148 | - | - |
| Total capital expenditures | $ 2,847 | $ 2,566 | $ 2,133 |
| Depreciation: | | | |
| Black Diamond | $ 2,254 | $ 2,264 | $ 3,039 |
| Sierra | 629 | - | - |
| Total depreciation | $ 2,883 | $ 2,264 | $ 3,039 |
| Amortization: | | | |
| Black Diamond | $ 1,081 | $ 1,075 | $ 1,245 |
| Sierra | 1,295 | - | - |
| Total amortization | $ 2,376 | $ 1,075 | $ 1,245 |

## NOTE 17. RELATED PARTY TRANSACTIONS

### 5% Unsecured Subordinated Notes due May 28, 2017

As part of the consideration payable to the stockholders of Gregory when the Company acquired Gregory, the Company issued $14,517, $7,539, and $554 in 5% Unsecured Subordinated Notes due May 28, 2017 (the "Merger Consideration Subordinated Notes") to Kanders GMP Holdings, LLC, Schiller Gregory Investment Company, LLC, and five former employees of Gregory, respectively. Mr. Warren B. Kanders, the Company's Executive Chairman and a member of its Board of Directors, is a majority member and a trustee of the manager of Kanders GMP Holdings, LLC. The principal terms of the Merger Consideration Subordinated Notes are as follows: (i) the principal amount is due and payable on May 28, 2017 and is prepayable by the Company at any time; (ii) interest will accrue on the principal amount at the rate of 5% per annum and shall be payable quarterly in cash; (iii) the default interest rate shall accrue at the rate of 10% per annum during the occurrence of an event of default; and (iv) events of default, which can only be triggered with the consent of Kanders GMP Holdings, LLC, are: (a) the default by the Company on any payment due under a Merger Consideration Subordinated Note; (b) the Company's failure to perform or observe any other material covenant or agreement contained in the Merger Consideration Subordinated Notes; or (c) the Company's instituting or becoming subject to a proceeding under the Bankruptcy Code (as defined in the Merger Consideration Subordinated Notes). The Merger Consideration Subordinated Notes are junior to all senior indebtedness of the Company, except that payments of interest continue to be made under the Merger Consideration Subordinated Notes as long as no event of default exists under any senior indebtedness.

Given the below market interest rate for comparably secured notes and the relative illiquidity of the Merger Consideration Subordinated Notes, we have discounted the notes to $8,640, $4,487, and $316, respectively, at the date of acquisition. We are accreting the discount on the Merger Consideration Subordinated Notes to interest expense using the effective interest method over the term of the Merger Consideration Subordinated Notes. The effective interest rate is approximately 14%.

On April 7, 2011, Schiller Gregory Investment Company, LLC transferred its Merger Consideration Subordinated Note in equal amounts to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust. On June 24, 2013, the Robert R. Schiller Cornerstone Trust dated September 9, 2010 transferred its Merger Consideration Subordinated Note in the amount of $3,769 to the Robert R. Schiller 2013 Cornerstone Trust dated June 24, 2013. During the year ended December 31, 2017, $89 in interest was paid to Kanders GMP Holdings, LLC, and $46 in interest was paid to the Robert R. Schiller 2013 Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust pursuant to the outstanding Merger Consideration Subordinated Notes.

On May 29, 2012 and August 13, 2012, five former employees of Gregory exercised certain sales rights and sold Merger Consideration Subordinated Notes in the aggregate principal amount of approximately $365 to Kanders GMP Holdings, LLC and in the aggregate principal amount of approximately $189 to Schiller Gregory Investment Company, LLC. During the year ended December 31, 2017, $2 in interest was paid to Kanders GMP Holdings, LLC, and $1 in interest was paid to Schiller Gregory Investment Company, LLC, pursuant to these outstanding Merger Consideration Subordinated Notes.

During February 2017, the Company's Board of Directors approved the repayment of the Merger Consideration Subordinated Notes. On February 13, 2017, the entire principal amount and all accrued interest were paid in full. The note discount as of December 31, 2016 of $814 was expensed and recognized as interest expense during the three months ending March 31, 2017.

Upon the Company's acquisition of Sierra, on August 21, 2017, the Company paid a fee in the amount of $1,000 to Kanders & Company, Inc. ("Kanders & Company"), which is included in transaction costs, in consideration of the significant support received by the Company from Kanders & Company in sourcing, structuring, performing due diligence and negotiating the acquisition. Mr. Warren B. Kanders, the Company's Executive Chairman of the Board of Directors and a member of its Board of Directors, is the sole stockholder of Kanders & Company.

**SUPPLEMENTARY DATA – QUARTERLY FINANCIAL DATA (Unaudited)**

The following table sets forth selected quarterly data for the years ended December 31, 2017 and 2016. The operating results are not indicative of results for any future period.

| | Year Ended December 31, 2017 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (in thousands, except per share amounts) | | | |
| Net sales | $ 41,556 | $ 30,680 | $ 45,774 | $ 52,677 |
| Gross profit | 12,300 | 9,038 | 15,284 | 17,188 |
| Operating (loss) income | (276) | (3,864) | (1,049) | 374 |
| Net (loss) income | (1,455) | (3,654) | (1,583) | 6,019 |
| | | | | |
| Net (loss) income per share: | | | | |
| Basic | $ (0.05) | $ (0.12) | $ (0.05) | $ 0.20 |
| Diluted | (0.05) | (0.12) | (0.05) | 0.20 |

| | Year Ended December 31, 2016 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (in thousands, except per share amounts) | | | |
| Net sales | $ 38,207 | $ 29,142 | $ 39,441 | $ 41,399 |
| Gross profit | 10,954 | 8,345 | 12,336 | 12,049 |
| Operating (loss) income | (3,873) | (1,951) | 571 | (717) |
| Net loss | (4,013) | (3,171) | (405) | (1,389) |
| | | | | |
| Net loss per share: | | | | |
| Basic | $ (0.13) | $ (0.10) | $ (0.01) | $ (0.05) |
| Diluted | (0.13) | (0.10) | (0.01) | (0.05) |

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Executive Chairman and Chief Financial Officer, its principal executive officer and principal financial officer, respectively, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2017, pursuant to Exchange Act Rule 13a-15. Such disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the appropriate management on a basis that permits timely decisions regarding disclosure. Based upon that evaluation, the Company's Executive Chairman and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of December 31, 2017, were effective.

### Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework (2013)*.

The Company acquired Sierra Bullets on August 21, 2017. Management excluded Sierra from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. Sierra's total assets were $26,420 and total sales were $10,356 for the year ended December 31, 2017.

Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2017. The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on the Company's internal control over financial reporting, which is included herein.

### Changes in Internal Control Over Financial Reporting

On August 21, 2017, the Company acquired Sierra. Because Sierra utilizes separate information and accounting systems, the Company has implemented internal controls over financial reporting for acquisition-related accounting and disclosures. The acquisition of Sierra represents a material change in internal control over financial reporting since management's last assessment of the Company's internal control over financial reporting, which was completed as of December 31, 2016.

The Company’s management is reviewing and evaluating its internal control procedures and the design of those control procedures related to the Sierra acquisition and evaluating when it will complete an evaluation and review of Sierra’s internal controls over financial reporting.

Except as described above, there has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended December 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**CLARUS CORPORATION**

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
of Clarus Corporation:

*Opinion on Internal Control Over Financial Reporting*

We have audited Clarus Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and related notes (collectively, the consolidated financial statements), and our report dated March 12, 2018 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Sierra Bullets, LLC (Sierra) during 2017, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, Sierra's internal control over financial reporting associated with total assets of $26,420 and total revenues of $10,356 included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Sierra Bullets, LLC.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Salt Lake City, Utah
March 12, 2018

## ITEM 9B. OTHER INFORMATION

None.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding executive officers is included in Part I of this Annual Report on Form 10-K as permitted by General Instruction G(3).

The Company has adopted a code of ethics that applies to its principal executive officer and principal financial officer, and to all of its other officers, directors and employees. The code of business conduct and ethics may be accessed at www.claruscorp.com, our Internet website, at the tab "Governance" under the section called "Governance Documents." The Company intends to disclose future amendments to, or waivers from, certain provisions of its code of business conduct and ethics, if any, on the above website within five business days following the date of such amendment or waiver.

Other information required by Item 10, including information regarding directors, membership and function of the audit committee, including the financial expertise of its members, and Section 16(a) compliance, appearing under the captions "Election of Directors", "Information Regarding Board of Directors and Committees" and "Other Matters" in our Proxy Statement used in connection with our 2018 Annual Meeting of Stockholders, is incorporated herein by reference. The Company intends to file its Proxy Statement with the SEC not later than 120 days after December 31, 2017.

## ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Executive Compensation" in our Proxy Statement used in connection with our 2018 Annual Meeting of Stockholders, is incorporated herein by reference. The Company intends to file its Proxy Statement with the SEC not later than 120 days after December 31, 2017.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in our Proxy Statement used in connection with our 2018 Annual Meeting of Stockholders, is incorporated herein by reference. The Company intends to file its Proxy Statement with the SEC not later than 120 days after December 31, 2017.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth under the caption "Certain Relationships and Related Transactions, and Director Independence" in our Proxy Statement used in connection with our 2018 Annual Meeting of Stockholders, is incorporated herein by reference. The Company intends to file its Proxy Statement with the SEC not later than 120 days after December 31, 2017.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the caption "Principal Accountant Fees and Services" in our Proxy Statement used in connection with our 2018 Annual Meeting of Stockholders, is incorporated herein by reference. The Company intends to file its Proxy Statement with the SEC not later than 120 days after December 31, 2017.

CLARUS CORPORATION

PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**Financial Statements, Financial Statement Schedules and Exhibits**

(a)(1) The Financial Statements. The Financial Statements of the Company are included in Item 8 above.

(a)(2) Financial Statement Schedules. No schedules are included because the required information is inapplicable, not required or are presented in the financial statements or the related notes thereto.

(a)(3) The following Exhibits are hereby filed as part of this Annual Report on Form 10-K:

| Exhibit Number | Exhibit |
|---|---|
| 2.1 | Agreement and Plan of Merger dated as of May 7, 2010 by and among the Company, Everest/Sapphire Acquisition, LLC, Sapphire Merger Corp., Black Diamond Equipment, Ltd. and Ed McCall, as Stockholders' Representative (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Commission on May 10, 2010 and incorporated herein by reference). |
| 2.2 | Agreement and Plan of Merger dated as of May 7, 2010 by and among the Company, Everest/Sapphire Acquisition LLC, Everest Merger I Corp., Everest Merger II, LLC, Gregory Mountain Products, Inc. and Kanders GMP Holdings, LLC, Schiller Gregory Investment Company, LLC (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K, filed with the Commission on May 10, 2010 and incorporated herein by reference). |
| 2.3 | Asset Purchase Agreement by and among Samsonite LLC, the Company and Gregory Mountain Products, LLC, dated as of June 18, 2014 (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K, filed with the Commission on June 23, 2014 and incorporated herein by reference). |
| 2.4 | Purchase Agreement by and Among Dainese S.P.A., Dainese USA, Inc., the Company and Ember Scandinavia AB, dated as of October 7, 2015 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on October 14, 2015 and incorporated herein by reference). |
| 2.5 | Purchase and Sale Agreement by and among Everest/Sapphire Acquisition, LLC Sierra Bullets L.L.C., BHH Management, Inc. and Lumber Management, Inc., dated as of August 21, 2017 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on August 25, 2017 and incorporated herein by reference). |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (filed as Appendix C to the Company's Definitive Proxy Statement, filed with the Commission on November 6, 2002 and incorporated herein by reference). |
| 3.2 | Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the Commission on July 31, 2003 and incorporated herein by reference). |
| 3.3 | Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on January 24, 2011 and incorporated herein by reference). |
| 3.4 | Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 14, 2017 and incorporated herein by reference). |
| 3.5 | Amended and Restated Bylaws of the Company (filed as Appendix D to the Company's Definitive Proxy Statement, filed with the Commission on November 6, 2002 and incorporated herein by reference). |

**CLARUS CORPORATION**

| Exhibit Number | Exhibit |
|---|---|
| 3.6 | Amendment No. 1 to the Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.4 of the Company's Annual Report on Form 10-K, filed with the Commission on March 31, 2003). |
| 3.7 | Amendment No. 2 to the Amended and Restated By-Laws of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on June 4, 2010 and incorporated herein by reference). |
| 3.8 | Amendment No. 3 to the Amended and Restated By-Laws of the Company (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2010 and incorporated herein by reference). |
| 3.9 | Amendment No. 4 to the Amended and Restated By-Laws of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on June 9, 2016 and incorporated herein by reference). |
| 3.10 | Amendment No. 5 to the Amended and Restated By-Laws of the Company (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on August 7, 2017 and incorporated herein by reference). |
| 3.11 | Form of Certificate of Designation of Series A Junior Participating Preferred Stock (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on February 13, 2008 and incorporated herein by reference). |
| 4.1 | See Exhibits 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10 and 3.11 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws of the Company defining rights of the holders of Common Stock of the Company. |
| 4.2 | Company's Specimen Common Stock Certificate.** |
| 4.3 | Rights Agreement, dated as of February 12, 2008, by and between the Company and American Stock Transfer & Trust Company (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the Commission on February 13, 2008 and incorporated herein by reference). |
| 4.4 | Form of Rights Certificate (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Commission on February 13, 2008 and incorporated herein by reference). |
| 10.1 | Form of Indemnification Agreement for Directors and Executive Officers of the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on December 23, 2002 and incorporated herein by reference). |
| 10.2 | Employment Agreement between the Company and Warren B. Kanders, dated as of June 1, 2017 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on June 6, 2017 and incorporated herein by reference). + |
| 10.3 | Employment Agreement, dated as of May 16, 2016, between the Company and Aaron Kuehne (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on May 20, 2016 and incorporated herein by reference). + |
| 10.4 | Company's 2005 Stock Incentive Plan (filed as Appendix A of the Company's Definitive Proxy Statement, filed with the Commission on May 2, 2005 and incorporated herein by reference). + |
| 10.5 | Amendment No. 1 to the Company's 2005 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on September 7, 2010 and incorporated herein by reference). + |
| 10.7 | Company's 2015 Stock Incentive Plan (filed as Appendix A to the Company's Proxy Statement, filed with the Commission on November 9, 2015 and incorporated herein by reference). + |
| 10.8 | Form of Stock Option Agreement for the Company's 2015 Stock Incentive Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on December 17, 2015 and incorporated herein by reference). + |

## CLARUS CORPORATION

| Exhibit Number | Exhibit |
|---|---|
| 10.9 | Form of Stock Award Agreement for the Company's 2015 Stock Incentive Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on December 17, 2015 and incorporated herein by reference). + |
| 10.10 | Form of 5% Unsecured Subordinated Note due May 28, 2017 (filed as Exhibit 10.9 to the Company's Current Report on Form 8-K, filed with the Commission on June 4, 2010 and incorporated herein by reference). |
| 10.11 | Third Amended and Restated Loan Agreement, effective as of August 21, 2017, by and among Zions First National Bank, a national banking association, as Lender, and; the Company; Black Diamond Equipment, Ltd.; Black Diamond Retail, Inc.; Everest/Sapphire Acquisition, LLC; BD North American Holdings, LLC; PIEPS Service, LLC; BD European Holdings, LLC; and Sierra Bullets, L.L.C., as Borrowers (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Commission on August 25, 2017 and incorporated herein by reference). |
| 10.12 | Fourth Amended and Restated Promissory Note (Revolving Loan), effective as of August 21, 2017, by and among the Company; Black Diamond Equipment, Ltd.; Black Diamond Retail, Inc.; Everest/Sapphire Acquisition, LLC; BD North American Holdings, LLC; PIEPS Service, LLC; BD European Holdings, LLC.; Sierra Bullets, L.L.C.; and Zions First National Bank (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Commission on August 25, 2017 and incorporated herein by reference). |
| 21.1 | Subsidiaries of the Company.** |
| 23.1 | Consent of Independent Registered Public Accounting Firm.** |
| 31.1 | Certification of Principal Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.** |
| 31.2 | Certification of Principal Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.** |
| 32.1 | Certification of Principal Executive Officer, pursuant to 18. U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley of 2002.*** |
| 32.2 | Certification of Principal Financial Officer, pursuant to 18. U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley of 2002.*** |
| 101.INS | XBRL Instance Document. ** |
| 101.SCH | XBRL Taxonomy Extension Schema Document. ** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. ** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. ** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. ** |
| + | Management contract or compensatory plan or arrangement. |
| ** | Filed herewith |
| *** | Furnished herewith |

**CLARUS CORPORATION**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

***CLARUS CORPORATION***

*Date: March 12, 2018*

*By: /s/ Aaron J. Kuehne*
*Aaron J. Kuehne,*
*Chief Administrative Officer and Chief Financial Officer*
*(Principal Financial Officer and Principal Accounting Officer)*

| Name | Title |
| --- | --- |
| /s/ Warren B. Kanders<br>Warren B. Kanders | Executive Chairman and Director (Principal Executive Officer) |
| /s/ Aaron J. Kuehne<br>Aaron J. Kuehne | Chief Administrative Officer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |
| /s/ Donald L. House<br>Donald L. House | Director |
| /s/ Nicholas Sokolow<br>Nicholas Sokolow | Director |
| /s/ Michael A. Henning<br>Michael A. Henning | Director |

**CLARUS CORPORATION**

**EXHIBIT INDEX**

| Exhibit Number | Exhibit |
|---|---|
| 4.2 | Company's Specimen Common Stock Certificate.** |
| 21.1 | Subsidiaries of the Company.** |
| 23.1 | Consent of Independent Registered Public Accounting Firm.** |
| 31.1 | Certification of Principal Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.** |
| 31.2 | Certification of Principal Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.** |
| 32.1 | Certification of Principal Executive Officer, pursuant to 18. U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*** |
| 32.2 | Certification of Principal Financial Officer, pursuant to 18. U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*** |
| 101.INS | XBRL Instance Document ** |
| 101.SCH | XBRL Taxonomy Extension Schema Document ** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document ** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document ** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document ** |
| ** | Filed herewith |
| *** | Furnished herewith |

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**EXHIBIT 31.1**

## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Warren B. Kanders, certify that:

1. I have reviewed this annual report on Form 10-K of Clarus Corporation;

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

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

4. The registrant's other certifying officer 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;

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: March 12, 2018*

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

**EXHIBIT 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Aaron J. Kuehne certify that:

1. I have reviewed this annual report on Form 10-K of Clarus Corporation;

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

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

4. The registrant's other certifying officer 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;

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: March 12, 2018*

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

**EXHIBIT 32.1**

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

I, Warren B. Kanders, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Clarus Corporation on Form 10-K for the year ended December 31, 2017, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Clarus Corporation.

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

*Date: March 12, 2018*

| | |
|---|---|
| *By:* | */s/ Warren B. Kanders* |
| *Name:* | *Warren B. Kanders* |
| *Title:* | *Executive Chairman*<br>*(Principal Executive Officer)* |

**EXHIBIT 32.2**

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

I, Aaron J. Kuehne, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Clarus Corporation on Form 10-K for the year ended December 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Clarus Corporation.

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

*Date: March 12, 2018*

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

# AWARDS

**Fritschi Tecton 12 Binding**
*Outside:* Outside Gear of the Show
*TheManual.com:* Best in Show
*GearJunkie.com:* Best in Show
*BackcountryskiingCanada.com:*
Best New Gear from Winter OR
*Backcountry Magazine:* Gear Guide Select

**Helio Three-In-One Gloves**
*ISPO:* ISPO Gold Award
*Backcountry Magazine:* Gear Guide Select

**RockLock Screwgate Carabiner**
*OutdoorGearLab.com:* Best Locking
Carabiner Best Buy Award

**Sprinter Headlamp**
*Backpackers.com:* Backpackers.com
2017 Premium Pick

**Route Skis**
*BackcountryskiingCanada.com:*
Best New Gear from Winter OR

**Fritschi Vipec Evo 12 Binding**
*BackcountryskiingCanada.com:*
Best New Gear from Winter OR
*Backcountry Magazine:* Gear Guide Select

**ReVolt Headlamp**
*Backpackers.com:* Premium Pick for the
Wilderness Backpacker
*Backpackers.com:* Car Camper
*UltraRunning Magazine:* Best in Category

**Momentum Climbing Shoe**
*GearJunkie.com:* Best in Show
*Outside/outsideonline.com:* Gear of Show
*Men'sJournal.com:* Best of OR
*MensHealth.com:* Best New Fitness Gear
You'll Crave

**MegaLight Tent**
*Backpacker:* Backpacker Editor's Choice
Gold (Snow Award)
*Backpacker Magazine*: Editor's Choice
- Gold

**Speed 40 Pack**
*Outdoor Magazine - Germany:* Testsieger

**Boundary Pro 107 Ski**
*Backcountry Magazine:* Gear Guide Select
*Powder Magazine:* Skier's Choice

**Boundary Pro 115 Ski**
*Powder Magazine:* Skier's Choice

**Helio 105 Ski**
*Backcountry Magazine:* Gear Guide Select

**Route 95 Ski**
*Backcountry Magazine:* Gear Guide Select

**Helio 88 Ski**
*Backcountry Magazine:* Gear Guide Select

**Saga 40 JetForce® Avalanche Airbag Pack**
*Backcountry Magazine:* Gear Guide Select

**Carbon Whippet**
*Backcountry Magazine:* Gear Guide Select

**Cirque 45 Pack**
*Backcountry Magazine:* Gear Guide Select

**Apollo Lantern**
*Backcountry Magazine:* Gear Guide Select

**First Light Hoody**
*Backcountry Magazine:* Gear Guide Select

**Spot Headlamp**
*Backpackers.com:* Classic Pick

# ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Thursday, June 7, 2018 at 8:00 a.m. Eastern Daylight Savings Time at the offices of Kane Kessler, P.C. located at 666 Third Avenue, New York, NY 10017. Detailed information about the meeting is contained in the Notice of Annual Meeting and Proxy Statement sent with a copy of this Annual Report.

# CORPORATE INFORMATION

**Board of Directors**

Warren B. Kanders
*Executive Chairman*

Michael A. Henning
*Financial Consultant*

Donald L. House
*Financial Consultant*

Nicholas Sokolow
*Partner*
*Lebow & Sokolow, LLP*

**Management**

John C. Walbrecht
*President*

Aaron J. Kuehne
*Chief Administrative Officer,*
*Chief Financial Officer,*
*Secretary and Treasurer*

# STOCKHOLDER INFORMATION

**Headquarters**

Clarus Corporation
2084 East 3900 South
Salt Lake City, UT 84124
(801) 278-5552

**Investor Relations Contact**

Liolios
Cody Slach
(949) 574-3860
BDE@liolios.com

**Securities Listing**

The Company's common stock is listed on the NASDAQ Global Select Market under the symbol CLAR.

**Registrar and Transfer Agent**

American Stock Transfer & Trust Co.
New York, NY

**Independent Accountants**

KPMG, LLP
Salt Lake City, UT

**Legal Counsel**

Kane Kessler, P.C.
New York, NY

*Left:* Dan Patitucci
*Middle:* Sierra Bullets
*Right:* Jake Moon

Jon Griffith