

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2021

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

For the transition period from _____ to _____

Commission File No. 333-132456

Byrna Technologies Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

71-1050654

(I.R.S. Employer Identification No.)

100 Burt Road, Suite 115
Andover, MA 01810

(Address of Principal Executive Offices, including zip code)

(978) 868-5011

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: None.

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

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

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

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

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

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

As of September 30, 2021, the Company had 23,613,945 issued and outstanding shares of common stock.

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	<u>2</u>
<u>Item 1. Condensed Consolidated Financial Statements</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets as of August 31, 2021 (unaudited) and November 30, 2020</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the Three and Nine Months Ended August 31, 2021 and 2020 (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended August 31, 2021 and 2020 (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three and Nine Months Ended August 31, 2021 and 2020 (unaudited)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
<u>Item 4. Controls and Procedures</u>	<u>40</u>
<u>PART II – OTHER INFORMATION</u>	<u>41</u>
<u>Item 1. Legal Proceedings</u>	<u>41</u>
<u>Item 1A. Risk Factors</u>	<u>41</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>41</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>41</u>
<u>Item 5. Other Information</u>	<u>41</u>
<u>Item 6. Exhibits</u>	<u>42</u>
<u>SIGNATURES</u>	<u>43</u>

References in this Quarterly Report on Form 10-Q to the "Company," "we," "us" or "our" refer to Byrna Technologies Inc.

PART 1 – FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

BYRNA TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

(Amounts in thousands, except share and per share data)

	August 31, 2021 <u>Unaudited</u>	November 30, 2020
ASSETS		
CURRENT ASSETS		
Cash	\$ 58,421	\$ 3,175
Restricted cash	—	6,389
Accounts receivable, net	945	834
Inventory, net	7,551	4,817
Net investment in sales-type lease, current	46	—
Prepaid expenses and other current assets	993	1,391
Total current assets	<u>67,956</u>	<u>16,606</u>
Patent rights, net	3,659	811
Deposits for equipment	1,084	619
Right-of-use asset, net	1,148	1,200
Net investment in sales-type lease, non-current	45	—
Property and equipment, net	1,393	1,220
Goodwill	816	651
Restricted cash	92	92
Other assets	85	17
TOTAL ASSETS	<u>\$ 76,278</u>	<u>\$ 21,216</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,233	\$ 6,629
Operating lease liabilities, current	237	257
Deferred revenue	417	4,843
Line of credit	—	—
Notes payable, current	—	76
Total current liabilities	<u>6,887</u>	<u>11,805</u>
Notes payable, non-current	—	115
Deferred revenue - non-current	303	59
Operating lease liabilities, non-current	830	828
Total liabilities	<u>8,020</u>	<u>12,807</u>
COMMITMENTS AND CONTINGENCIES (NOTE 23)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued	—	—
Series A Preferred Stock, 1,500 shares designated, 0 and 1,391 shares issued and outstanding, respectively	—	—
Common stock, \$0.001 par value, 300,000,000 shares authorized, 23,603,996 and 14,852,023 shares issued and outstanding, respectively	23	15
Additional paid-in capital	118,374	58,581
Accumulated deficit	(50,290)	(50,215)
Accumulated other comprehensive (loss) income	151	28
Total Stockholders' Equity	<u>68,258</u>	<u>8,409</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 76,278</u>	<u>\$ 21,216</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

BYRNA TECHNOLOGIES INC.
Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income
(Amounts in thousands except share and per share data)
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	August 31,		August 31,	
	2021	2020	2021	2020
Net revenue	\$ 8,703	\$ 4,198	\$ 30,997	\$ 5,537
Cost of goods sold	(3,815)	(2,069)	(13,807)	(2,926)
Gross profit	4,888	2,129	17,190	2,611
Operating expenses	6,692	2,686	17,382	5,644
LOSS FROM OPERATIONS	(1,804)	(557)	(192)	(3,033)
OTHER INCOME (EXPENSE)				
Foreign currency transaction gain (loss)	(115)	(9)	78	(19)
Accretion of debt discounts	—	—	—	(755)
Interest income (expense)	13	—	(24)	(233)
Loss on extinguishment of debt	—	—	—	(6,027)
Warrant inducement expense	—	—	—	(845)
Other income - forgiveness of Paycheck Protection Program loan	—	—	190	—
Other financing costs	(9)	—	(18)	—
(LOSS) INCOME BEFORE INCOME TAXES	(1,915)	(566)	34	(10,912)
Income tax (benefit) provision	(74)	—	109	—
NET LOSS	(1,841)	(566)	(75)	(10,912)
Foreign exchange translation (loss) gain for the period	(55)	20	123	116
COMPREHENSIVE (LOSS) INCOME	\$ (1,896)	\$ (546)	\$ 48	\$ (10,796)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$ (1,841)	\$ (566)	\$ (1,118)	\$ (10,912)
Net loss per share – basic and diluted	\$ (0.08)	\$ (0.04)	\$ (0.06)	\$ (0.91)
Weighted-average number of common shares outstanding - basic and diluted	22,047,571	13,493,676	18,269,360	12,015,065

See accompanying notes to the unaudited condensed consolidated financial statements.

BYRNA TECHNOLOGIES INC.
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	For the Nine Months Ended	
	August 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (75)	\$ (10,912)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock-based compensation expense	2,527	659
Forgiveness of Paycheck Protection Program loan	(190)	—
Accretion of debt discounts	—	755
Loss on extinguishment of debt	—	6,027
Warrant inducement	—	845
Write-down of inventory	24	—
Issuance of common shares for services	—	119
Shares to be issued for services	—	43
Depreciation and amortization	353	153
Amortization of debt issuance costs	16	—
Operating lease costs	151	77
Selling loss on sales-type lease	33	—
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	394	(196)
Deferred revenue	(4,182)	9,266
Inventory	(2,303)	(2,267)
Prepaid expenses and other current assets	643	(1,814)
Net investment in sales-type lease	9	—
Other assets	(2)	(17)
Accounts payable and accrued liabilities	(557)	1,992
Operating lease liabilities	(117)	(199)
Accrued interest	—	233
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(3,276)	4,764
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of patent rights	(70)	(80)
Cash paid for acquisitions, net of cash acquired	(4,044)	(489)
Purchases of property and equipment	(827)	(1,023)
NET CASH USED IN INVESTING ACTIVITIES	(4,941)	(1,592)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from warrant exercises	1,277	6,751
Proceeds from stock option exercises	45	3
Proceeds from sale of common stock, net of underwriting discounts	56,753	—
Payment of offering costs	(801)	—
Payment of debt issuance costs	(83)	—
Proceeds from Roboro sellers for common stock	—	500
Proceeds from Paycheck Protection Program loan	—	190
Repayment of notes payable	—	(111)
Proceeds from line of credit	1,500	—
Payments to line of credit	(1,500)	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	57,191	7,333
Effects of foreign currency exchange rate changes	(117)	203
NET INCREASE IN CASH AND RESTRICTED CASH FOR THE PERIOD	48,857	10,708
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD	9,656	1,174
CASH AND RESTRICTED CASH, END OF PERIOD	\$ 58,513	\$ 11,882
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ 24	\$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

BYRNA TECHNOLOGIES INC.
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING, INVESTING AND FINANCING ACTIVITIES:

Nine months ended August 31, 2021 and 2020

The Company entered into an operating lease during the nine months ended August 31, 2021 resulting in \$0.1 million of right-of-use asset and corresponding operating lease liability. See Note 21 “Leases” for additional information.

On April 9, 2021, the Board of Directors of the Company declared a cash dividend in the amount of \$750 per share of Series A Convertible Preferred Stock, par value \$0.001 per share, outstanding at the close of business on April 12, 2021 (the record date), in the aggregate amount of \$1.0 million. In connection therewith, the Company and each holder of Series A Convertible Preferred Stock agreed that effective April 15, 2021, the Series A Convertible Stock, plus accrued and unpaid dividends thereon (including without limitation the dividend of \$750 per share) be converted into common stock. Accordingly, on April 15, 2021, all of the Series A Convertible Preferred Stock outstanding was converted to 4,636,649 shares of common stock with an additional 695,498 shares of common stock issued in exchange for all accrued and unpaid dividends. See Note 17 “Stockholders’ Equity” for additional information.

Effective April 8, 2020, the Company exchanged an aggregate of approximately \$6.95 million of all its outstanding convertible notes payable which were issued in October 2018, April 2019, May 2019, July 2019, and September 2019 (collectively the “Notes”), representing principal and accrued interest through April 7, 2020, for 1,391 shares of Series A Convertible Preferred Stock (“Series A Preferred Stock”). As the transaction was accounted for as a debt extinguishment, the shares of Series A Preferred Stock and Warrants issued were recorded in equity at fair value of \$11.59 million (before reduction of \$0.03 million related to issuance costs) and \$0.2 million, respectively. See Note 17 “Stockholders’ Equity” for additional information.

During the nine months ended August 31, 2020, FinTekk AP, LLC (“FinTekk”) returned 369,999 shares associated with the Treasury Stock Receivable recorded in fiscal year 2019, which were subsequently retired in January 2020.

On January 6, 2020, the Company issued 386,681 shares of common stock with a value of \$0.7 million in exchange for Patent Rights.

In January 2020, the Company issued 49,842 warrants to all noteholders as payment in kind to satisfy \$0.1 million of accrued interest.

In February 2020, the Company issued 15,000 warrants with a value of approximately \$0.01 million for marketing services.

See accompanying notes to the unaudited condensed consolidated financial statements.

BYRNA TECHNOLOGIES INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Three Months Ended August 31, 2021 and 2020
(Amounts in thousands except share numbers)
(Unaudited)

	<u>Shares</u>	<u>\$</u>	<u>Shares</u>	<u>\$</u>					<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
	<u>Series A Preferred Stock</u>		<u>Common Stock</u>		<u>Shares to be Issued</u>	<u>Treasury Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>		
Balance, May 31, 2021	—	\$ —	20,693,521	\$ 20	\$ —	\$ —	\$ 61,374	\$ (48,449)	\$ 206	\$ 13,151
Stock-based compensation	—	—	—	—	—	—	981	—	—	981
Cancellation of shares	—	—	(485)	—	—	—	—	—	—	—
Issuance of common stock pursuant to exercise of stock options	—	—	11,905	—	—	—	10	—	—	10
Warrant exercises	—	—	24,055	—	—	—	60	—	—	60
Sale of common stock, net of underwriting discount and offering costs	—	—	2,875,000	3	—	—	55,949	—	—	55,952
Net loss	—	—	—	—	—	—	—	(1,841)	—	(1,841)
Foreign currency translation	—	—	—	—	—	—	—	—	(55)	(55)
Balance, August 31, 2021	<u>—</u>	<u>\$ —</u>	<u>23,603,996</u>	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 118,374</u>	<u>\$ (50,290)</u>	<u>\$ 151</u>	<u>\$ 68,258</u>
Balance, May 31, 2020	1,391	\$ —	12,629,957	\$ 12	\$ 63	—	\$ 53,653	\$ (48,008)	\$ 58	\$ 5,778
Issuance of common stock for services	—	—	7,200	—	(43)	—	43	—	—	—
Stock-based compensation	—	—	—	—	—	—	11	—	—	11
Issuance of common stock pursuant to exercise of stock options	—	—	1,500	—	—	—	3	—	—	3
Warrant exercises	—	—	2,002,204	2	—	—	3,513	—	—	3,515
Net loss	—	—	—	—	—	—	—	(566)	—	(566)
Foreign currency translation	—	—	—	—	—	—	—	—	20	20
Balance, August 31, 2020	<u>1,391</u>	<u>\$ —</u>	<u>14,640,861</u>	<u>\$ 14</u>	<u>\$ 20</u>	<u>—</u>	<u>\$ 57,223</u>	<u>\$ (48,574)</u>	<u>\$ 78</u>	<u>\$ 8,761</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

BYRNA TECHNOLOGIES INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended August 31, 2021 and 2020
(Amounts in thousands except share numbers)
(Unaudited)

	Shares	\$	Shares	\$	Shares to be Issued	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	Series A Preferred Stock		Common Stock							
Balance, November 30, 2020	1,391	\$ —	14,852,023	\$ 15	\$ —	\$ —	\$ 58,581	\$ (50,215)	\$ 28	\$ 8,409
Stock-based compensation	—	—	—	—	—	—	2,527	—	—	2,527
Cancellation of shares	—	—	(485)	—	—	—	—	—	—	—
Issuance of common stock pursuant to exercise of stock options	—	—	34,572	—	—	—	45	—	—	45
Warrant exercises	—	—	510,739	—	—	—	1,277	—	—	1,277
Dividends declared on preferred shares	—	—	—	—	—	—	(1,043)	—	—	(1,043)
Conversion of preferred shares and accrued dividends on preferred shares	(1,391)	—	5,332,147	5	—	—	1,038	—	—	1,043
Sale of common stock, net of underwriting discount and offering costs	—	—	2,875,000	3	—	—	55,949	—	—	55,952
Net income	—	—	—	—	—	—	—	(75)	—	(75)
Foreign currency translation	—	—	—	—	—	—	—	—	123	123
Balance, August 31, 2021	—	\$ —	23,603,996	\$ 23	\$ —	\$ —	\$ 118,374	\$ (50,290)	\$ 151	\$ 68,258
Balance, November 30, 2019	—	\$ —	10,402,184	\$ 10	\$ 20	\$ (888)	\$ 36,595	\$ (37,662)	\$ (38)	\$ (1,963)
Issuance of common stock pursuant to exercise of stock options	—	—	1,500	—	—	—	3	—	—	3
Shares to be issued	—	—	—	—	43	—	—	—	—	43
Issuance of common stock for services	—	—	69,700	—	(43)	—	161	—	—	118
Issuance of common stock for intellectual property	—	—	386,681	—	—	—	693	—	—	693
Issuance of common stock – Roboro acquisition	—	—	138,889	—	—	—	554	—	—	554
Issuance of warrants upon conversion of the convertible notes	—	—	—	—	—	—	240	—	—	240
Issuance of Series A preferred stock upon conversion of the convertible notes	1,391	—	—	—	—	—	11,562	—	—	11,562
Issuance of warrants for payment of accrued interest	—	—	—	—	—	—	125	—	—	125
Stock-based compensation	—	—	—	—	—	—	659	—	—	659
Cancellation of shares	—	—	(370,000)	—	—	888	(884)	—	—	4
Warrant exercises	—	—	4,011,907	4	—	—	7,515	—	—	7,519
Net loss	—	—	—	—	—	—	—	(10,912)	—	(10,912)
Foreign currency translation	—	—	—	—	—	—	—	—	116	116
Balance, August 31, 2020	1,391	\$ —	14,640,861	\$ 14	\$ 20	\$ —	\$ 57,223	\$ (48,574)	\$ 78	\$ 8,761

See accompanying notes to the unaudited condensed consolidated financial statements.

BYRNA TECHNOLOGIES INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the three and nine months ended August 31, 2021 and 2020

1. NATURE OF OPERATIONS

The Company was incorporated under the laws of the state of Delaware on March 1, 2005. On February 3, 2014, the Company incorporated a wholly-owned subsidiary in Canada, Security Devices International Canada Corp. ("SDI Canada"). SDI Canada was dissolved on December 19, 2019. On March 1, 2018, the Company acquired all the shares of a company in South Africa, Byrna South Africa (Pty) Ltd. ("Byrna South Africa"). On May 5, 2020, the Company acquired all the outstanding shares of Roboro Industries ("Roboro"), at that time, its exclusive manufacturer in South Africa. See Note 6, "Acquisitions: Business Combination." On May 12, 2021, the Company acquired certain assets of the Mission Less Lethal brand from Kore Outdoor (U.S.), Inc. See Note 6, "Acquisitions: Asset Acquisition." On August 18, 2021, the Company acquired Ballistipax®. See Note 6, "Acquisitions: Business Combination."

Byrna Technologies Inc. (the "Company" or "Byrna") is a non-lethal defense technology company, specializing in next generation solutions for security situations that do not require the use of lethal force. The Company's primary product is its .68 caliber handheld personal security device called the Byrna® HD and Byrna® HD magazines and projectiles. The Company manufactured its Byrna HD launchers and magazines at Roboro until May 2020 when Roboro became a subsidiary and its operations were assumed by Byrna South Africa. On October 6, 2020, the Company opened a second manufacturing facility in Fort Wayne, Indiana. The Company has implemented manufacturing partnerships in the United States and South Africa, to assist in the deployment of its patented family of 40mm ammunition and its .68 caliber ammunition. The Company's 40mm products are its Blunt Impact Projectile 40mm ("BIP®") line of products.

2. OPERATIONS AND MANAGEMENT PLANS

The Company had net loss of \$0.08 million for the nine months ended August 31, 2021 compared to a net loss of \$10.9 million for the nine months ended August 31, 2020. From inception to August 31, 2021, the Company had incurred a cumulative loss of \$50.3 million. The Company has funded operations through the issuance of common stock, warrants, and convertible notes payable. The Company continues to incur a loss from operations. It still is expected to incur significant losses before the Company's revenues sustain its operations. The Company's future success is dependent upon its ability to continue to generate adequate revenue or raise sufficient capital, to cover its ongoing operating expenses, and also to continue to develop and be able to profitably market its products.

On January 19, 2021, the Company entered into a \$5.0 million revolving line of credit, secured by the Company's accounts receivable and inventory, and a \$1.5 million line of credit, secured by the Company's equipment. On July 6, 2021, the Company entered into an agreement that modified the revolving line of credit and the line of credit. See Note 16, "Lines of Credit" for additional information. Management projects that all cash needs will be met beyond one year from the time these financial statements are issued.

In July 2021, the Company issued and sold an aggregate of 2,875,000 registered shares of its common stock (including 375,000 shares sold pursuant to the exercise of the underwriters' over-allotment option) at a price of \$21.00 per share. The net proceeds to the Company, after deducting \$4.4 million in underwriting discounts and commissions, and offering expenses, were approximately \$56.0 million. The Company intends to use the net proceeds from this offering for working capital and other general corporate purposes. See Note 17, "Stockholders' Equity" for additional information.

3. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”); however, such information reflects all adjustments consisting solely of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. Certain prior year amounts have been reclassified to conform with the presentation of amounts for the three and nine months ended August 31, 2021.

The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto together with management’s discussion and analysis of financial condition and results of operations contained in Byrna Technologies Inc.’s (“Byrna” or the “Company”) annual report on Form 10-K for the year ended November 30, 2020. In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements, the results of its operations for the three and nine months ended August 31, 2021 and 2020, and its cash flows for the nine months ended August 31, 2021 and 2020 are not necessarily indicative of results to be expected for the full year.

4. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our Condensed Consolidated Financial Statements. Significant estimates include assumptions about collection of accounts receivable and the reserve for doubtful accounts, stock-based compensation expense, fair value of equity instruments, valuation for deferred tax assets, incremental borrowing rate on leases, valuation and carrying value of goodwill and other identifiable intangible assets, estimates for warranty costs, and useful life of fixed assets.

5. RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)* (“ASU 2018-13”). The guidance improves the effectiveness of disclosures about fair value measurements required under ASC 820. ASU 2018-13 amends the disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures. The Company adopted ASU 2018-13 in the first quarter of fiscal 2021. The adoption of ASC 2018-13 did not have a material impact on the Company’s consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”). FASB issued the update to include share-based payment transaction for acquiring goods or services from nonemployees in Topic 718, *Compensation – Stock Compensation*. The Company adopted ASU 2018-07 in the first quarter of fiscal 2020 prospectively. The adoption of ASC 2018-07 did not have a material impact on the Company’s consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic: 260), Distinguishing Liabilities from Equity (Topic: 480), Derivatives and Hedges (Topic 815)*. The FASB issued the update to simplify the accounting for certain financial instruments with down round features. The Company adopted ASU 2017-11 in the first quarter of fiscal 2020. Currently, the Company does not have financial instruments with down round features but will apply this update prospectively.

Accounting Guidance Issued But Not Adopted

In 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The guidance simplifies the accounting for income taxes by primarily addressing the following: recognition of a deferred tax liability after transition to/from the equity method, evaluation when a step-up in the tax basis of goodwill should be related to a business combination or when it should be considered a separate transaction, inclusion of the amount of tax based on income in the income tax provision and any incremental amount as a tax not based on income, and recognition of the effect of an enacted change in tax laws or annual effective tax rates in the period the change was enacted. The guidance is effective for the Company in the first quarter of 2022. Early adoption is permitted. Several of the amendments in the update are required to be adopted using a prospective approach, while other amendments are required to be adopted using a modified-retrospective approach or retrospective approach. The Company is currently evaluating the impact of adopting this update on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). The FASB issued the update to simplify the measurement of goodwill by eliminating step 2 from the goodwill impairment test. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 will be effective for the Company so long as it remains a smaller reporting company in the first quarter of 2024. Early adoption is permitted. The Company is currently evaluating the impact of adopting this update on the consolidated financial statements.

In 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The guidance changes the impairment model used to measure credit losses for most financial assets. A new forward-looking expected credit loss model will replace the existing incurred credit loss model and will impact the Company’s accounts and other receivables. This is expected to generally result in earlier recognition of allowances for credit losses. ASU 2016-13 will be effective for the Company in December 2023 as long as it remains a smaller reporting company. Early adoption is permitted. The Company is currently evaluating the impact of adopting this update on the consolidated financial statements.

6. ACQUISITIONS

Asset Acquisition

On May 12, 2021, the Company entered into an asset purchase agreement to purchase certain assets used in the business of designing, developing, manufacturing, licensing, and selling of products and services for the Mission Less Lethal brand from Kore Outdoor (U.S.) Inc., (“Kore”) a wholly owned subsidiary of Kore Outdoor, Inc.

The transaction was accounted for as an asset acquisition, with estimated \$3.7 million total cost of which \$0.2 million were acquisition-related expenses. The estimated total cost of the acquisition has been allocated as follows (in thousands):

Accounts receivable	\$	465
Prepaid expenses		165
Inventory		82
Property and equipment		180
Intangible assets		2,810
Total acquired assets	\$	<u>3,702</u>

The Company accounted for the transaction as an asset acquisition where the assets acquired were measured based on the amount of cash paid to Kore as well as transaction costs incurred as the fair value of the assets given was more readily determinable than the fair value of the assets received. The Company classified and designated identifiable assets acquired and assessed and determined the useful lives of the acquired intangible assets subject to amortization.

Business Combination

Ballistipax

On August 18, 2021, the Company acquired Ballistipax®, a developer of single-handed rapidly deployable bulletproof backpacks. As part of the transaction, the Company has acquired two patents, finished goods and raw materials inventory.

The estimated fair value of assets acquired on August 18, 2021 is as follows (in thousands):

Inventory	\$	117
Patents		60
Goodwill		165
Total acquired assets	\$	<u>342</u>

Roboro

On May 5, 2020, the Company acquired 100% of the equity interests in Roboro, its exclusive manufacturer in South Africa, in order to reduce its dependence on third parties for production. As a result of this acquisition, operations were assumed by Byrna South Africa.

The acquisition date fair value of the consideration was \$0.6 million, including \$0.5 million paid in cash. In addition, Roboro's sellers purchased 138,889 shares of the Company's common stock for \$0.5 million at a contractual price of \$3.60 per share. These shares, which were issued on May 27, 2020, were restricted and subject to a 15-month vesting schedule and are vested. The fair market value of the common stock of \$0.6 million was based on the stock's closing price of \$4.00 on May 5, 2020. The difference between the fair market value plus approximately \$0.002 million of transaction costs and the amount paid, was treated as an additional consideration for the acquisition.

The fair value of assets acquired and liabilities assumed on May 5, 2020 is as follows (in thousands):

Property and equipment	\$	67
Goodwill		651
Right-of-use asset, net		54
Loan payable		(123)
Operating lease liability, current		(35)
Operating lease liability, noncurrent		(19)
Other net asset (liabilities)		(38)
Total acquired net assets	\$	<u>557</u>

7. REVERSE STOCK SPLIT

On April 27, 2021, the Company effected a 1-for-10 reverse stock split. All owners of record as of April 27, 2021 received one issued and outstanding share of the Company's common stock in exchange for 10 outstanding shares of the Company's common stock. No fractional shares were issued in connection with the reverse stock split. All fractional shares created by the one-for-ten exchange were rounded down to the next whole share, with cash paid in lieu of fractional shares. The reverse stock split had no impact on the par value per share of the Company's common stock, which remains at \$0.001. All share and per share information has been retroactively adjusted to reflect the impact of the Reverse Stock Split.

8. RESTRICTED CASH

The Company's restricted cash - current was \$0.0 million and \$6.4 million at August 31, 2021 and November 30, 2020, respectively. This amount is due to holds placed on its use by the Company's merchant services vendor pending fulfillment of backorders prepaid by credit cards. The Company's long-term restricted cash of \$0.1 million at August 31, 2021 and November 30, 2020, consists of cash that the Company is contractually obligated to maintain in accordance with the terms of its lease agreement.

9. REVENUE, DEFERRED REVENUE AND ACCOUNTS RECEIVABLE

The Company generates revenue through the wholesale distribution of its products and accessories to dealers/distributors, large end-users such as security companies and law enforcement agencies, and through an e-commerce portal to consumers. Revenue is recognized upon transfer of control of goods to the customer, which generally occurs when title to goods is passed and risk of loss transfers to the customer. Depending on the contract terms, transfer of control is upon shipment of goods to or upon the customer's pick-up of the goods. Payment terms to customers other than e-commerce customers are generally 30-60 days for established customers, whereas new wholesale and large end-user customers have prepaid terms for their first order. The amount of revenue recognized is net of estimated returns and discounts that the Company offers to its customers. Products purchased include a standard warranty that cannot be purchased separately. This allows customers to return defective products for repair or replacement within one year of sale. The Company also sells an extended warranty for the same terms over three years. The extended 3-year warranty can be purchased separately from the product and therefore, must be classified as a service warranty. Since a warranty for the first year after sale is included and non-separable from all launcher purchases, the Company considers this extended warranty to represent a service obligation during the second and third years after sale. Therefore, the Company accumulates billings of these transactions on the balance sheet as deferred revenue, to be recognized on a straight-line basis during the second and third year after sale. The Company recognizes an estimated reserve based on its analysis of historical experience, and an evaluation of current market conditions. The Company's returns under warranties have been immaterial. In February 2021, the Company identified certain Byrna® HD launchers that may contain a wire that is not to specification and offered customers a free factory service update for their launchers. The Company established a reserve of \$0.2 million as an estimate of future related costs. As of August 31, 2021, approximately \$0.1 million of these estimated costs have been incurred or resolved.

The Company also has a 60-day money back guarantee, which allows for a full refund of the purchase price, excluding shipping charges, within 60 days from the date of delivery. The right of return creates a variable component to the transaction price and needs to be considered for any possible constraints. The Company estimates returns using the expected value method, as there will likely be a range of potential return amounts. The Company's returns under the 60-day money back guarantee for the three and nine months ended August 31, 2021 were \$0.4 million and \$0.4 million, respectively. The Company's returns under the 60-day money back guarantee for the three and nine months ended August 31, 2020 have been immaterial.

Revenue excludes taxes collected from customers and remitted to government authorities related to sales of the Company's products. The Company elected the practical expedient under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* that allows an entity to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. Costs to obtain a contract consist of commissions paid to employees and are included in operating expenses in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

Commissions were \$0.05 million and \$0.1 million for the three months ended August 31, 2021 and 2020, respectively. Commissions were \$0.4 million and \$0.1 million for the nine months ended August 31, 2021 and 2020, respectively.

Included as cost of goods sold are costs associated with the production and procurement of products, such as labor and overhead, inbound freight costs, manufacturing depreciation, purchasing and receiving costs, and inspection costs.

The Company charges certain customers shipping and handling fees. Shipping and handling costs, which includes outbound freight associated with the distribution of finished products to customers, are recognized when the product is shipped to the customer and are included in Operating expenses in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. Shipping and handling costs were \$0.4 million and approximately \$0.03 million for the three months ended August 31, 2021 and 2020, respectively. Shipping and handling costs were \$1.4 million and approximately \$0.03 million for the nine months ended August 31, 2021 and 2020, respectively.

Allowance for Doubtful Accounts

The Company provides an allowance for its accounts receivable for estimated losses that may result from its customers' inability to pay. The Company determines the amount of the allowance by analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and its customers' creditworthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. A significant proportion of the Company's sales are made via e-commerce. These orders are prepaid by credit card and involve no credit risk. To minimize the likelihood of uncollectible debt, the Company reviews its customers' creditworthiness periodically. Material differences may result in the amount and timing of expense for any period if the Company were to make different judgments or utilize different estimates. The allowance for doubtful accounts was approximately \$0.02 million as of August 31, 2021 and \$0.01 million as of November 30, 2020.

Deferred Revenue

Changes in deferred revenue, which relate to unfulfilled e-commerce orders and amounts to be recognized under extended 3-year service warranties, for the nine months ended August 31, 2021 and the year ended November 30, 2020, are summarized below (in thousands):

	August 31, 2021	November 30, 2020
Deferred revenue balance, beginning of period	\$ 4,902	\$ 11
Net additions to deferred revenue during the period	23,957	18,826
Reductions in deferred revenue for revenue recognized during the period	(28,139)	(13,935)
Deferred revenue balance, end of period	720	4,902
Less current portion	417	4,843
Deferred revenue, non-current	<u>\$ 303</u>	<u>\$ 59</u>

Revenue Disaggregation

The following table presents disaggregation of the Company's revenue by product type and distribution channel (in thousands):

Product type	Three Months Ended August 31,		Nine Months Ended August 31,	
	2021	2020	2021	2020
Byrna® HD	\$ 8,702	\$ 4,084	\$ 30,951	\$ 5,312
40mm	1	114	46	225
Total	<u>\$ 8,703</u>	<u>\$ 4,198</u>	<u>\$ 30,997</u>	<u>\$ 5,537</u>

Distribution channel	Three Months Ended August 31,		Nine Months Ended August 31,	
	2021	2020	2021	2020
Wholesale (dealer/distributors and large end-users)	\$ 2,986	\$ 1,053	\$ 7,041	\$ 1,343
E-commerce	5,717	3,145	23,956	4,194
Total	<u>\$ 8,703</u>	<u>\$ 4,198</u>	<u>\$ 30,997</u>	<u>\$ 5,537</u>

10. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and reflected net of accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, primarily three to seven years for computer equipment and software, furniture and fixtures, and machinery and equipment. Leasehold improvements are amortized over the lesser of the useful lives of three to seven years or lease terms. The following table summarizes cost and accumulated depreciation as of August 31, 2021 and November 30, 2020, respectively (in thousands):

	August 31, 2021	November 30, 2020
Computer equipment and software	\$ 275	\$ 204
Furniture and fixtures	140	105
Leasehold improvements	249	144
Machinery and equipment	1,530	1,324
	<u>2,194</u>	<u>1,777</u>
Less: accumulated depreciation	801	557
Total	<u>\$ 1,393</u>	<u>\$ 1,220</u>

The Company recognized approximately \$0.4 million and \$0.2 million in depreciation expense during the nine months ended August 31, 2021 and 2020, respectively. The Company recognized approximately \$0.1 million and \$0.1 million in depreciation expense during the three months ended August 31, 2021 and 2020, respectively.

At August 31, 2021 and November 30, 2020, the Company had deposits of \$1.1 million and \$0.6 million, respectively, with vendors primarily for supply of machinery (molds) and equipment where the vendors have not completed the supply of these assets and is presented as Deposits for equipment in the Condensed Consolidated Balance Sheets.

During the nine months ended August 31, 2021, the Company transferred equipment with a net book value of \$0.1 million to a lessee under a sales-type lease. See Note 21, "Leases" for additional information.

11. INVENTORY

The following table summarizes inventory as of August 31, 2021 and November 30, 2020, respectively (in thousands):

	August 31, 2021	November 30, 2020
Raw materials	\$ 3,975	\$ 2,901
Work in process	168	302
Finished goods	3,408	1,614
Total	<u>\$ 7,551</u>	<u>\$ 4,817</u>

Inventory at August 31, 2021 and November 30, 2020, primarily relates to the Byrna® HD Personal Security Device.

12. PREPAID EXPENSES AND OTHER CURRENT ASSETS

The following table summarizes prepaid expenses and other current assets as of August 31, 2021 and November 30, 2020, (in thousands):

	August 31, 2021	November 30, 2020
VAT receivables	\$ 98	\$ 572
Advance payment for inventory	540	677
Prepaid insurance	236	16
Other	119	126
Total	\$ 993	\$ 1,391

13. PATENT RIGHTS

On August 18, 2021, the Company acquired Ballistipax®. As part of the transaction, the Company has acquired two patents with estimated fair value of \$0.06 million. No amortization has been recorded for the patent rights during the three or nine months ended August 31, 2021 but will begin in September 2021. These patent rights have a maximum life of approximately 17 years, expiring on 2038, and will be amortized on a straight-line basis.

On May 12, 2021, the Company entered into an asset purchase agreement with Kore, pursuant to which the Company acquired the exclusive right to use the key patents and intellectual property underpinning the acquired suite of products. As consideration for the tangible and intangible assets included in the Kore Portfolio, the Company paid Kore \$3.5 million, and incurred \$0.2 in legal costs to transfer these patent rights. Of the \$3.7 million consideration, \$2.8 million was capitalized relating to the key patents and intellectual property acquired. Amortization of \$0.04 million has been recorded for the patent rights during the three and nine months ended August 31, 2021. These patent rights have a maximum life of 20 years, expiring on various dates beginning from January 2037 to 2038, and will be amortized on a straight-line basis over a period of 15 years.

On April 13, 2018, the Company entered into a purchase and sale agreement with Andre Buys (“Buys”), the Company’s Chief Technology Officer (“CTO”), pursuant to which the Company agreed to purchase the Buys Portfolio, provisional patent rights, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or “finned” rounds. As consideration for the Buys Portfolio, the Company paid Buys \$0.1 million, and incurred \$0.01 in legal costs to transfer these patent rights. This consideration of \$0.1 million was capitalized and represents the minimum rights to a license arrangement as patent rights as the Agreement included an option for full acquisition of the rights, conditional upon certain future events taking place. The Company also agreed to pay Buys either \$0.5 million in cash or \$0.8 million worth of Company stock within two years at Buys’ discretion, if the Company elected to retain certain patents within the Buys Portfolio, which terms were changed by subsequent amendment. Pursuant to an amendment of the Agreement effective December 18, 2019, the Company made two additional payments to Buys totaling of \$0.8 million, consisting of the Second Payment of \$0.7 million through the issuance of 386,681 shares of common stock and Final Payment of \$0.1 million in cash. The Final Payment was paid during the quarter ended August 31, 2020. Buys no longer retains any reversion rights or security interests in the Buys Portfolio. These patent rights have a maximum life of 20 years, expiring on various dates beginning from November 2033 to 2038, and are amortized on a straight-line basis over a period of 15 years.

The Company amortized \$0.1 million and \$0.05 million of patent rights during nine months ended August 31, 2021 and 2020. The Company recognized \$0.06 million and \$0.02 million in amortization expense during the three months ended August 31, 2021 and 2020, respectively. The Company did not recognize any impairment losses during the three and nine months ended August 31, 2021 and 2020, respectively.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities consist of the following (in thousands):

	August 31, 2021	November 30, 2020
Trade payables	\$ 3,019	\$ 3,475
Accrued sales and use tax	702	1,050
Payroll accrual	1,328	904
Accrued commissions	47	375
Accrued professional fees	741	217
Accrued royalties	81	180
Warranty	117	268
Income taxes payable	142	—
Other accrued liabilities	56	160
Total	<u>\$ 6,233</u>	<u>\$ 6,629</u>

15. NOTES PAYABLE

The Company received \$0.2 million of funding under the Paycheck Protection Program ("PPP") on May 4, 2020. The PPP loan was disbursed by the Coronavirus Aid Relief and Economic Security ("CARES") Act as administered by the U.S. Small Business Administration ("SBA"). The loan was made pursuant to a PPP Promissory Note and Agreement. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met. The receipt of these funds, and the forgiveness of the loan was dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on its adherence to the forgiveness criteria. In June 2020, Congress passed the Payroll Protection Program Flexibility Act that made several significant changes to PPP loan provisions, including providing greater flexibility for loan forgiveness. On February 10, 2021, the Company received approval from the SBA for \$0.2 million of PPP loan forgiveness. This amount was recorded as Forgiveness of Paycheck Protection Program loan in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income during the nine months ended August 31, 2021.

16. LINES OF CREDIT

On January 19, 2021, the Company entered into a \$5.0 million revolving line of credit with a bank. The revolving line of credit bears interest at a rate equal to the Wall Street Journal Prime Rate plus 0.50%, subject to a floor of 4.00%. The revolving line of credit is secured by the Company's accounts receivable and inventory. The line of credit is subject to an unused fee of 0.25% paid once annually. The line of credit expires on January 19, 2024.

On January 19, 2021, the Company entered into a \$1.5 million equipment financing line of credit with a bank. The line of credit bears interest at a rate equal to the Wall Street Journal Prime Rate plus 0.50%, subject to a floor of 4.00%. The line of credit is secured by the Company's equipment. The line of credit is subject to an unused fee of 0.25% paid once annually. The line of credit expires on January 19, 2024.

On July 6, 2021, the Company entered into a First Omnibus Loan Modification Agreement (the "Amendment") with Needham Bank, a Massachusetts co-operative bank (the "Lender") that modifies that certain Commercial Loan and Security Agreement dated as of January 19, 2021 (the "Loan Agreement"). Pursuant to the Loan Agreement, the Lender established a revolving line of credit of up to \$5.0 million as evidenced by a Secured Revolving Line of Credit Note executed by the Company in favor of the Bank (the "Revolving Note") and a non-revolving equipment line of credit of up to \$1.5 million as evidenced by equipment term notes in the principal amounts drawn from time to time. Pursuant to the Amendment, the Lender and Company agreed to (i) temporarily for a 150-day period increase the Company's principal amount on the Revolving Note from \$5.0 million to \$7.5 million, (ii) temporarily for a 150-day period increase the credit limit under the Loan Agreement from \$5.0 million to \$7.5 million, and (iii) a one-time non-refundable modification fee payable to Lender by the Company for the increased borrowing ability of \$0.02 million, with one-half paid upon execution of the Agreement and one-half due only if the Company's aggregate outstanding principal balance exceeds \$5.0 million. In addition, the Company agreed that upon the expiration of the 150-day period it would use the proceeds of any equity raise consummated during such time to make payments under the Revolving Note such that the aggregate principal balance of outstanding advances under the Revolving Note are equal or less to \$5.0 million. As of August 31, 2021, there was no outstanding balance on the Revolving Note and the Company had not drawn on the non-revolving equipment line of credit.

Debt issuance costs related to the lines of credit were approximately \$0.1 million. Debt issuance costs are being amortized over the term of the debt and are presented as part of Other Assets in the Condensed Consolidated Balance Sheets. Amortization of approximately \$0.01 million for the three months ended August 31, 2021 is included in Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. Amortization of approximately \$0.02 million for the nine months ended August 31, 2021 is included in Other financing costs in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

17. STOCKHOLDERS' EQUITY

In July 2021, the Company issued and sold an aggregate of 2,875,000 registered shares of its common stock (including 375,000 shares sold pursuant to the exercise of the underwriters' overallotment option) at a price of \$21.00 per share. The net proceeds to the Company, after deducting \$4.4 million in underwriting discounts and commissions, and offering expenses, were approximately \$56.0 million. The Company intends to use the net proceeds from this offering for working capital and other general corporate purposes.

On April 9, 2021, the Board of Directors declared a dividend in the amount of \$750 per share of Series A Convertible Preferred Stock, par value \$0.001 per share, outstanding at the close of business on April 12, 2021 (the record date), in the aggregate amount of \$1.0 million. In connection therewith, the Company and each holder of Series A Convertible Preferred Stock agreed that effective April 15, 2021, the Series A Convertible Preferred Stock, plus accrued unpaid dividends thereon be converted to 4,636,649 shares of common stock, with an additional 695,498 shares of common stock issued in exchange for all accrued and unpaid dividends.

Series A Preferred Stock

Effective April 8, 2020, the Company exchanged an aggregate of approximately \$7.0 million of all its then-outstanding notes, representing principal and accrued interest through April 7, 2020, for 1,391 shares Series A Preferred Stock. The shares of Series A Preferred Stock were recorded at fair value of \$11.6 million (before reduction of \$0.029 million related to issue costs) based on a per share fair value of \$0.008 million. The per share fair value was determined using the number of common stock shares in a conversion ($3,333 = \$0.005 \text{ million original issue price divided by } \$1.50 \text{ conversion price}$) multiplied by the \$2.50 market price of a share of common stock.

Each share of Series A Preferred Stock had a \$0.005 million issue price. Dividends accrued on the issue price at a rate of 10.0% per annum and were payable to holders of Series A Preferred Stock when and if declared by the Board. The dividends were cumulative and accrued starting from the April 8, 2020 issuance date.

Each share of Series A Preferred Stock was convertible into the number of shares of common stock equal to the issue price divided by the conversion price of \$1.50. Upon conversion of the Series A Preferred Stock, all accrued and unpaid dividends were converted to common stock utilizing the same conversion formula. The conversion price was subject to proportional adjustment for certain transactions relating to the Company's common stock, including stock splits, stock dividends and similar transactions. Holders of Series A Preferred Stock were entitled to a liquidation preference in the event of any liquidation, dissolution or winding up of the Company.

Warrants

During the nine months ended August 31, 2021, the Company raised \$1.3 million through warrant exercises, where 510,739 warrants were exercised at a contractual price of \$2.50 per warrant for 510,739 shares of common stock. During the three months ended August 31, 2021, the Company raised \$0.1 million through warrant exercises, where 24,055 warrants were exercised at a contractual price of \$2.50 per warrant for 29,055 shares of common stock.

During March 2020, the Company raised approximately \$3.2 million through early warrant exercises, where 1,997,911 warrants were exercised for 1,997,911 shares of common stock. The warrant exercise price was reduced from \$2.50 to \$1.60 per warrant to induce warrant holders to exercise. The Company recorded warrant inducement expense of \$0.8 million, which represents the difference between fair value at the reduced price of \$1.60 per warrant and fair value at the contractual price of \$2.50. The fair values of the warrants at \$1.60 and \$2.50 were determined using a Monte Carlo simulation model.

During the nine months ended August 31, 2020, a warrant holder exercised 11,792 warrants for 11,792 shares of common stock at an exercise price of \$1.80 per warrant for proceeds of \$0.02 million. During the nine months ended August 31, 2020, the Company issued 49,842 warrants to those note holders who returned interest checks and accepted payment in kind of units consisting of then convertible notes with a face value of \$0.1 million together with 400 warrants for every \$1,000 of accrued interest to satisfy \$0.1 million of accrued interest that was payable through October 31, 2019. The warrants are each exercisable for one share of common stock at an exercise price of \$2.50 per share on or before October 22, 2023. The Company also issued 15,000 warrants as payment to a consultant for marketing services. The warrants were exercised at a price of \$2.50 per share on February 2, 2021.

The following table summarizes warrant activity, which includes the incentive warrants, during the nine months ended August 31, 2021:

	Number of Warrants	Weighted-Average Exercise Price
Outstanding at November 30, 2020	585,739	2.40
Granted	—	—
Exercised	(510,739)	2.50
Outstanding at August 31, 2021	75,000	1.55
Exercisable at August 31, 2021	75,000	1.55

18. STOCK-BASED COMPENSATION

2017 Plan

The Company has granted stock options and other stock-based awards under its 2017 Stock Option Plan (the “2017 Plan”). The maximum number of shares of common stock which could have been reserved for issuance under the 2017 plan was 1,899,327. The 2017 Plan was administered by the Compensation Committee of the Board. The Compensation Committee determined the persons to whom options to purchase shares of common stock, and other stock-based awards may be granted. Persons eligible to receive awards under the 2017 Plan were employees, officers, directors, and consultants of the Company. Awards were at the discretion of the Compensation Committee. On February 24, 2021 the Company terminated the 2017 Plan and adopted the 2020 Equity Incentive Plan (defined below). In connection with the adoption of the 2020 Plan, the Company cancelled outstanding option awards granted under the 2017 Plan and replaced them with new award agreements evidencing an equivalent award under the 2020 Equity Incentive Plan with no change to any of the material provisions of the 2017 Plan option.

2020 Plan

On October 23, 2020, the Board approved and on November 19, 2020 the stockholders approved the Byrna Technologies Inc. 2020 Equity Incentive Plan (the “2020 Equity Incentive Plan”). The aggregate number of shares of common stock available for issuance in connection with options and other awards granted under the 2020 Plan is 2,500,000. On September 15, 2021, the Company’s Board of Directors approved to increase the number of shares of common stock available for issuance under the 2020 Plan by 1,400,000 shares. The 2020 Plan is administered by the Compensation Committee of the Board. The Compensation Committee determines the persons to whom options to purchase shares of common stock, stock appreciation rights (“SARs”), restricted stock units (“RSUs”), and restricted or unrestricted shares of common stock may be granted. Persons eligible to receive awards under the 2020 Equity Incentive Plan are employees, officers, directors, consultants, advisors and other individual service providers of the Company. Awards are at the discretion of the Compensation Committee.

On February 24, 2021, following the termination of the 2017 Plan, the Company replaced outstanding options under the 2017 Plan with options under the 2020 Equity Incentive Plan. There were no substantive changes to the rights of any holder of options granted under the 2017 plan by replacing their award certificates with award agreements under the 2020 plan. The grant dates, exercise prices, expiration dates, and vesting provisions of any of the new award agreements under the 2020 plan that replace the certificates issued under the 2017 plan are identical for each grant and no change in valuation or accounting was required. The Board also amended the definition of Disability in the 2020 Plan to provide that “Disability” has the meaning assigned to such term in any individual employment agreement or award agreement with a plan participant and that if no such definition is provided in an award or employment agreement “Disability” is defined as in the 2020 Plan.

Restricted Stock Units

During the nine months ended August 31, 2021 and 2020, the Company granted 174,493 and 0 RSUs, respectively. There were no RSUs granted during the three months ended August 31, 2021 and 2020.

Stock-based compensation expense for the RSUs for the three months ended August 31, 2021 and 2020 was \$0.9 million and \$0, respectively. Stock-based compensation expense for the RSUs for the nine months ended August 31, 2021 and 2020 was \$2.3 million and \$0, respectively. The Company recorded stock-based compensation expense for restricted stock units granted to non-employees of approximately \$0.1 million and \$0.07 million during the three and nine months ended August 31, 2021, respectively. The Company recorded no stock-based compensation expense for restricted stock units granted to non-employees during the three and nine months ended August 31, 2020, respectively.

As of August 31, 2021, there was \$7.5 million of unrecognized stock-based compensation cost related to unvested restricted stock units which is expected to be recognized over a weighted average period of 2.3 years. As of August 31, 2021, there was \$0.1 million of unrecognized stock-based compensation cost related to unvested restricted stock units granted to non-employees which is expected to be recognized over a weighted average period of 0.5 years. During the nine months ended August 31, 2021, no shares subject to previously granted restricted stock units vested.

The following table summarizes the RSU activity during the nine months ended August 31, 2021:

	<u>RSUs</u>
Unvested and outstanding as of November 30, 2020	1,573,500
Granted	174,493
Exercised	—
Cancelled	—
Unvested and outstanding at August 31, 2021	<u>1,747,993</u>

Stock Options

During the nine months ended August 31, 2021 and 2020, the Company granted options to employees and directors to purchase 41,000 and 391,750 shares of common stock, respectively. The options issued during the nine months ended August 31, 2021 vest over three years. The Company recorded stock-based compensation expense for options granted to its employees and directors of \$0.07 million and \$0.6 million during the nine months ended August 31, 2021 and 2020, respectively. The Company recorded stock-based compensation expense for options granted to its employees and directors of \$0.05 million and \$0.01 million during the three months ended August 31, 2021 and 2020, respectively.

During the nine months ended August 31, 2021, 94,683 stock options were forfeited resulting in net benefit of stock-based compensation of approximately \$0.1 million. During the three months ended August 31, 2021, 12,433 stock options were forfeited resulting in net benefit of stock-based compensation of approximately \$0.07 million.

During the nine months ended August 31, 2021 and 2020, the Company granted options to purchase 0 and 11,000, shares of common stock to non-employee contractors, respectively. The Company recorded no stock-based compensation expense for options granted to non-employees during the three months ended August 31, 2021 and 2020. During the nine months ended August 31, 2021 and 2020, the Company recorded \$0.04 and \$0.02, respectively, of stock-based compensation expense for options granted to non-employees.

As of August 31, 2021, there was \$0.3 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.5 years.

Stock Option Valuation

The assumptions that the Company used to determine the grant-date fair value of stock options granted to employees and non-employees for the nine months ended August 31, 2021 were as follows:

Black-Scholes option pricing model

Risk free rate		0.33%
Expected dividends		0.00
Expected volatility		83 –113%
Expected life (in years)		4 –5
Market price of the Company's common stock on date of grant	\$	14.74 –19.70
Exercise price	\$	14.90 –17.00

The following table summarizes option activity under the 2017 and 2020 Plan during the nine months ended August 31, 2021:

	Stock Options	Weighted-Average Exercise Price Per Stock Option
Outstanding, November 30, 2020 (1)	705,967	3.10
Granted	41,000	15.60
Exercised	(34,572)	1.30
Forfeited	(94,683)	5.50
Outstanding, August 31, 2021 (2)	617,712	2.83
Exercisable, August 31, 2021 (2)	450,000	1.96

(1) As of November 30, 2020 all options were governed by the 2017 Plan.

(2) As of August 31, 2021 all options were governed by the 2020 Plan.

Incentive Warrants

During the nine months ended August 31, 2021 and 2020, the Company issued 0 and 15,000 of warrants in exchange for services to a marketing consultant to purchase common shares, respectively. The warrants were issued outside of the 2017 Plan and were not included under the 2020 Plan. Stock-based compensation expense for the nine months ended August 31, 2021 and 2020 was \$0 and \$0.02 million, respectively. Stock-based compensation expense for the three months ended August 31, 2021 and 2020 was \$0.

Stock-Based Compensation Expense

Total stock-based compensation expense was \$2.5 million and \$0.7 million for the nine months ended August 31, 2021 and 2020, respectively. Total stock-based compensation expense was \$1.0 million and \$0.01 million for the three months ended August 31, 2021 and 2020, respectively. Total stock-based compensation expense was recorded in Operating expenses in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

19. LOSS PER SHARE

For the three and nine months ended August 31, 2021 and 2020, the Company recorded net loss available to common shareholders. As such, because the dilution from potential common shares was antidilutive, the Company used basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding when calculating diluted loss per share for the three and nine months ended August 31, 2021 and 2020.

The following table sets forth the allocation of net loss for the three and nine months ended August 31, 2021 and 2020, respectively:

	For the Three Months Ended August 31,		For the Nine Months Ended August 31,	
	2021	2020	2021	2020
Net loss	\$ (1,841)	\$ (566)	\$ (75)	\$ (10,912)
Preferred stock dividends	—	—	(1,043)	—
Net loss available to common shareholders	<u>\$ (1,841)</u>	<u>\$ (566)</u>	<u>\$ (1,118)</u>	<u>\$ (10,912)</u>
Weighted-average number of shares used in computing net loss per share, basic and diluted	<u>22,047,571</u>	<u>13,493,676</u>	<u>18,269,360</u>	<u>12,015,065</u>
Net loss per share – basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>	<u>\$ (0.91)</u>

The Company's potential dilutive securities, which include stock options and outstanding warrants to purchase shares of common stock, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted-average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The following potential common shares, presented based on amounts outstanding at each period end, were excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	For the Three Months Ended August 31,		For the Nine Months Ended August 31,	
	2021	2020	2021	2020
Series A Preferred Stock	—	4,636,649	—	4,636,649
Warrants	75,000	774,817	75,000	774,817
Stock Options	617,712	713,667	617,712	713,667
RSUs	1,747,993	—	1,747,993	—
Total	<u>2,440,705</u>	<u>6,125,133</u>	<u>2,440,705</u>	<u>6,125,133</u>

20. RELATED PARTY TRANSACTIONS

The following transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by related parties. Amounts due to related parties are unsecured, non-interest bearing with the exception of notes payable, and due on demand.

The Company expensed \$0.3 million and approximately \$0.05 million for royalties due to Buys, the Company's CTO, during the nine months ended August 31, 2021 and 2020, respectively and had accrued royalties of \$0.1 million and \$0.2 million as of August 31, 2021 and November 30, 2020, respectively. The Company also recorded stock-based compensation expense of approximately \$0.006 million and \$0.01 million during the nine months ended August 31, 2021 and 2020, related to stock options granted to Buys in 2018 to acquire 150,000 shares of common stock. Stock-based compensation expense was \$0 million and \$0.004 million during the three months ended August 31, 2021 and 2020, respectively.

The Company issued 386,681 shares of common stock with a value of \$0.7 million in connection with the Second Payment to Buys for the portfolio of registered patent rights (the "Buys Portfolio") during the nine months ended August 31, 2021. See Note 13, "Patent Rights," for additional information.

The Company leased office premises at Wakefield, Massachusetts for rent, utilities and maintenance charge of approximately \$0.002 million per month from a corporation owned and controlled by Bryan Ganz ("Ganz"), Chief Executive Officer ("CEO") of the Company. This lease was terminated June 30, 2020. The Company expensed \$0.02 million for these items during the nine months ended August 31, 2020. The Company expensed \$0.01 million for these items during the three months ended August 31, 2020.

21. LEASES

Operating Leases

The Company has operating leases for real estate in the United States and South Africa and does not have any finance leases.

In 2019, the Company had entered into a real estate lease for office space in Wilmington/Andover, Massachusetts. The Company was involved in the construction and design of the space and incurred construction costs, subject to an allowance for tenant improvements of \$0.2 million. The lease expiration date is August 31, 2026. The base rent is \$0.1 million per year, subject to an annual upward adjustment. The lease commencement date, for accounting purposes, was reached in June 2020 when the Company was granted access to the premises and therefore the lease is included in the Company's operating lease right-of-use asset and operating lease liabilities as of June 2020.

The Company leased office and warehouse space in South Africa under a lease that expired on November 30, 2020. The base rent was approximately \$0.004 million per month. In December 2020, the Company entered into a new lease for office and warehouse space. The lease expires in November 2024. The base rent during the nine months ended August 31, 2021 was approximately \$0.005 per month.

The Company leased real estate in Fort Wayne Indiana. The lease expires on February 28, 2022. In February 2021, the Company entered into a lease termination agreement with the landlord. Upon termination, the Company was required to pay a termination fee of approximately \$0.02 million. In addition, the Company leases warehouse and manufacturing space in Fort Wayne, Indiana. The lease expires on July 31, 2025. The base rent is approximately \$0.008 million per month. The Company also leases office space in Las Vegas, Nevada. The lease expires on August 31, 2022. The base rent is approximately \$0.004 million per month.

Certain of the Company's leases contain options to renew and extend lease terms and options to terminate leases early. Reflected in the right-of-use asset and lease liability on the Company's balance sheets are the periods provided by renewal and extension options that the Company is reasonably certain to exercise, as well as the periods provided by termination options that the Company is reasonably certain to not exercise.

As of August 31, 2021 and November 30, 2020, right-of-use assets of \$1.1 million and \$1.2 million, current lease liabilities of \$0.2 million and \$0.3 million and non-current lease liabilities of \$0.8 million and \$0.8 million, respectively, are reflected in the accompanying Condensed Consolidated Balance Sheets. The elements of lease expense were as follows (in thousands):

	<u>Three Months Ended</u> <u>August 31, 2021</u>	<u>Nine Months Ended</u> <u>August 31, 2021</u>
Lease Cost:		
Operating lease cost	\$ 87	\$ 266
Short-term lease cost	—	5
Variable lease cost	—	—
Total lease cost	<u>\$ 87</u>	<u>\$ 271</u>
Other Information:		
Cash paid for amounts included in the measurement of operating lease liabilities		\$ 235
Operating lease liabilities arising from obtaining right-of-use assets		\$ 182
Operating Leases:		
Weighted-average remaining lease term (in years)		4.5
Weighted-average discount rate		9.2%

Future lease payments under non-cancelable operating leases as of August 31, 2021 are as follows (in thousands):

Fiscal Year Ending November 30,	
2021 (three months)	\$ 80
2022	312
2023	279
2024	286
2025	187
Thereafter	153
Total lease payments	<u>1,297</u>
Less: imputed interest	230
Total lease liabilities	<u>\$ 1,067</u>

Sales-Type Leases

During the nine months ended August 31, 2021, the Company entered into an equipment lease as lessor. The lease is being accounted for as a sale-type lease. The term of the lease is three years. For a sales-type lease, the carrying amount of the asset is derecognized from property and equipment and a net investment in the lease is recorded. The net investment in the lease is measured at commencement date as the sum of the lease receivable and the estimated residual value of the equipment. The unguaranteed residual value of the equipment is determined as the estimated carrying value of the asset at the end of the lease term had the asset been depreciated on a straight-line basis. Selling profit or loss arising from a sales-type lease is recorded at lease commencement and presented on a gross basis. Over the term of the lease, the Company recognizes interest income on the net investment in the lease. At lease commencement, the Company determined the unguaranteed residual value of the equipment was \$0 and the selling profit or loss was immaterial.

The receivable recorded as a result of the lease is collateralized by the underlying equipment and consist of the following components at August 31, 2021 (in thousands):

Net minimum lease payments to be received	\$	102
Less: unearned interest income portion		11
Net investment in sales-type leases		<u>91</u>
Less: current portion		46
Net investment in sales-type leases, non-current	\$	<u>45</u>

The maturity schedule of future minimum lease payments under sales-type leases and the reconciliation to the net investment in sales-type leases reported at August 31, 2021 was as follows (in thousands):

Fiscal Year Ending November 30,

2021 (three months)	\$	13
2022		51
2023		<u>38</u>
Total future minimum sales-type lease payments		102
Less: unearned income		<u>11</u>
Total net investment in sales-type leases	\$	<u>91</u>

22. INCOME TAXES

For the three months ended August 31, 2021 and 2020, the Company recorded an income tax benefit of \$0.1 million and \$0, respectively. For the nine months ended August 31, 2021 and 2020, the Company recorded an income tax expense of \$0.1 million and \$0, respectively. For the three months ended August 31, 2021 and 2020, the effective tax rate was 4.5% and 0%, respectively. For the nine months ended August 31, 2021 and 2020, the effective tax rate was 37.5% and 0%, respectively. The Company's tax rate differs from the statutory rate of 21.0% due to the effects of state taxes net of federal benefit, the foreign tax rate differential as a result of Byrna South Africa, effects of permanent non-deductible expenses, the recording of a valuation allowance against the deferred tax assets generated in the prior period, utilization of Net Operating Loss ("NOL") and other effects.

The Company is subject to income tax in the U.S., as well as various state and international jurisdictions. The federal and state tax authorities can generally reduce a net operating loss (but not create taxable income) for a period outside the statute of limitations in order to determine the correct amount of net operating loss which may be allowed as a deduction against income for a period within the statute of limitations. Additional information regarding the statutes of limitations can be found in Note 23, "Income Taxes," in the Notes to Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended November 30, 2020.

On March 27, 2020, Congress signed into law the \$2 trillion bipartisan CARES Act. The CARES Act includes a variety of economic and tax relief measures intended to stimulate the economy, including loans for small businesses, payroll tax credits/deferrals, and corporate income tax relief. Due to the Company's history of net operating losses and full valuation allowance, the CARES Act did not have a significant effect to the income tax provision, as the corporate income tax relief was directed towards cash taxpayers.

23. COMMITMENTS AND CONTINGENCIES

Royalty Payment

Pursuant to the amended agreement related to the Final Payment to Buys for the Buys Portfolio, the Company is committed to a minimum royalty payment of \$0.025 million per year. Royalties on CO2 pistols are to be paid for so long as patents remain effective beginning at 2 ½% of the agreed upon a net price of \$167.60 ("Stipulated Net Price") for the first year and reduced by 0.1% each year thereafter until it reaches 1%. For each substantially new product in this category, the rate will begin again at 2 ½%. Royalties on the fintail projectiles (and any improved versions thereof) will be paid so long as patents remain effective at a rate of 4% of the agreed upon Stipulated Net Price for fintail projectile products.

COVID-19 Pandemic and the Coronavirus Aid, Relief, and Economic Security ("CARES") Act

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic may have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

The Company faces various risks related to COVID-19 outbreak. The Company is dependent on its workforce to deliver its products. If significant portions of the Company's workforce are unable to work effectively, or if customers' operations are curtailed due to illness, quarantines, government actions, facility closures, or other restrictions in connection with the COVID-19 pandemic, the Company's operations will likely be impacted. The Company may be unable to perform fully on its contracts and costs may increase as a result of the COVID-19 outbreak. These cost increases may not be fully recoverable or adequately covered by insurance. Since the COVID-19 outbreak began, no facilities have been fully shut down. Certain of the Company's vendors may be unable to deliver materials on time due to the COVID-19 outbreak. Such delays may negatively impact the Company's production, and the Company plans to continue to monitor these and its other vendors and, if necessary, seek alternative suppliers.

On March 27, 2020, then President Trump signed into law the CARES Act. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

Product Liability

In February 2021, the Company identified certain Byrna® HD launchers that may contain a wire that is not to specification and, as a result, the Company accrued a \$0.2 million reserve for the possible costs related to updating affected launchers. As of August 31, 2021, approximately \$0.06 million of these estimated costs have been incurred or resolved.

Legal Proceedings

In the ordinary course of our business, the Company may be subject to certain other legal actions and claims, including product liability, consumer, commercial, tax and governmental matters, which may arise from time to time. The Company does not believe it is currently a party to any pending legal proceedings. Notwithstanding, legal proceedings are subject to inherent uncertainties, and an unfavorable outcome could include monetary damages, and excessive verdicts can result from litigation, and as such, could result in a material adverse impact on the Company’s business, financial position, results of operations, and/or cash flows. Additionally, although the Company has specific insurance for certain potential risks, the Company may in the future incur judgments or enter into settlements of claims which may have a material adverse impact on the Company’s business, financial position, results of operations, and/or cash flows.

24. EXCLUSIVE SUPPLY AND PURCHASE AGREEMENTS

The Company entered into a Development, Supply and Manufacturing Agreement with the manufacturer of the 40mm blunt impact projectile (“BIP”) on August 1, 2017. This agreement requires the Company to order and purchase only from the BIP manufacturer certain BIP assemblies and components for use by the Company to produce less-lethal and training projectiles as described in the agreement. The agreement is for a term of four years with an automatic extension for additional one-year terms if neither party has given written notice of termination at least 60 days prior to the end of the then-current term. The agreement does not contain any minimum purchase commitments. Purchases from the BIP manufacturer were \$0 and \$0.07 million for the nine months ended August 31, 2021 and 2020, respectively. Purchases from the BIP manufacturer were \$0 and \$0.06 million for the three months ended August 31, 2021 and 2020, respectively. Notice was provided and this Development, Supply and Manufacturing Agreement was not extended after August 1, 2021.

25. SEGMENT AND GEOGRAPHICAL DISCLOSURES

The CEO, who is also the Chief Operating Decision Maker, evaluates the business as a single entity, which includes reviewing financial information and making business decisions based on the overall results of the business. As such, the Company’s operations constitute a single operating segment and one reportable segment.

The tables below summarize the Company’s revenue for the three and nine months ended August 31, 2021 and 2020, respectively, by geographic region (in thousands):

Revenue:

	U.S.	South Africa	Total
Three Months Ended			
August 31, 2021	\$ 7,140	\$ 1,563	\$ 8,703
August 31, 2020	3,707	491	4,198
Nine Months Ended			
August 31, 2021	\$ 28,465	\$ 2,532	\$ 30,997
August 31, 2020	5,028	509	5,537

26. FINANCIAL INSTRUMENTS

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them.

i) Currency Risk

The Company held its cash balances within banks in the U.S. in U.S. dollars and with banks in South Africa in U.S. dollars and South African rand. The Company's operations are conducted in the U.S. and South Africa. The value of the South African rand against the U.S. dollar may fluctuate with the changes in economic conditions.

During the nine months ended August 31, 2021, in comparison to the prior year period, the U.S. dollar strengthened in relation to the South African rand, and upon the translation of the Company's subsidiaries' revenues, expenses, assets and liabilities held in South African rand, respectively. As a result, the Company recorded a translation adjustment gain of \$0.1 million and translation adjustment gain of \$0.1 million primarily related to the South African rand during the nine months ended August 31, 2021 and 2020, respectively. The Company recorded a translation adjustment loss of \$0.06 and translation adjustment gain of \$0.02 million primarily related to the South African rand during the three months ended August 31, 2021 and 2020, respectively.

The Company's South African subsidiary revenues, cost of goods sold, operating costs and capital expenditures are denominated in South African rand. Consequently, fluctuations in the U.S. dollar exchange rate against the South African rand increases the volatility of sales, cost of goods sold and operating costs and overall net earnings when translated into U.S. dollars. The Company is not using any forward or option contracts to fix the foreign exchange rates. Using a 10% fluctuation in the U.S. exchange rate, the impact on the loss and stockholders' equity is not material.

ii) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable. The Company maintains cash with high credit quality financial institutions located in the U.S. and South Africa. The Company maintains cash and cash equivalent balances with financial institutions in the U.S. in excess of amounts insured by the Federal Deposit Insurance Corporation.

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its customers.

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

References in this quarterly report on Form 10-Q (the "Quarterly Report") to "we," "us" or the "Company" refer to Byrna Technologies Inc. References to our "management" or our "management team" refer to our officers and directors. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the notes thereto contained elsewhere in this Quarterly Report. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risks and uncertainties.

Special Note Regarding Forward-Looking Statements

This Quarterly Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act that are not historical facts and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. All statements, other than statements of historical fact included in this Quarterly Report including, without limitation, statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. Words such as "expect," "believe," "anticipate," "intend," "estimate," "seek" and variations and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect management's current beliefs, based on information currently available. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important risk factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to the Risk Factors section of our Annual Report on Form 10-K for the period ended November 30, 2020 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 26, 2021 (the "2020 10-K") and the Company's Quarterly Report on Form 10-Q for the period ended May 31, 2021 filed with the SEC on July 1, 2021 (the "2021 Q2 10-Q") the Company's subsequent filings with the SEC, which can be accessed on the EDGAR section of the SEC's website at www.sec.gov. Except as expressly required by applicable securities law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, including but not limited to the potential global impact of the COVID-19 pandemic, the impact of new strains including Delta on our personnel and operations, our ability to design, introduce and sell new products, services and features, the impact of any regulatory proceedings or litigation, our ability to protect our intellectual property and compete with existing and new products, the impact of stock compensation expense, dividends, warrant exercises and related accounting, impairment expense and income tax expense on our financial results, our ability to manage our supply chain and avoid production delays, shortages or other factors, including product mix, cost of parts and materials and cost of labor that may impact our gross margins, our ability to retain and incentivize key management personnel, product defects, the success of our entry to new markets, customer purchase behavior and negative media publicity or public perception of our brand or products, loss of customer data, breach of security or an extended outage related to our e-commerce storefronts, including a breach or outage by our third party cloud based storage providers, exposure to international operational risks, delayed cash collections or bad debt, determinations or audits by taxing authorities, changes in government regulations, the impact of existing or future regulation by the BATF, import and export regulators, or other federal or state authority, or changes in international law in key jurisdictions including South Africa or our inability to obtain needed exemptions from such existing or future regulation.

OVERVIEW

The following discussion and analysis is intended to help you understand us, our operations and our financial performance. It should be read in conjunction with our consolidated financial statements and the accompanying notes, which are included in Item 1 of this report.

Byrna Technologies is a designer, manufacturer, retailer and distributor of innovative technological solutions for security situations that do not require the use of lethal force. Our mantra is *Live Safe*, and our core mission is to empower individuals to safely and fully engage in life and adventure. Our design team's directive is to build easy-to-use self-defense tools to enhance the safety of our customers and their loved ones at home and outdoors. We are also focused on developing tools that can be used instead of firearms by professional law enforcement and private security customers to reduce shootings and facilitate trust between police and the communities they seek to serve. Our strategy is to establish Byrna® as a consumer lifestyle brand associated with the confidence people can achieve by knowing they can protect themselves, their loved ones and those around them. We believe we have a significant opportunity to leverage the Byrna brand to expand our product line, broaden our user base and generate increasing sales from new and existing customers.

A number of events during the quarter ended August 31, 2021 and the subsequent period impacted our results of operations. These included the exercise of all remaining outstanding warrants from our 2018 and 2019 private placements of convertible debt, the conversion of all outstanding Preferred Series A Stock for common stock, our listing on the Nasdaq and subsequent decision to delist from the Canadian Securities Exchange, the completion of a public offering of 2,875,000 shares of common stock, the introduction of a number of new products, new marketing endeavors, expanded awareness of our products and expanded sales volume, expansion of our brick and mortar outlets, and the onboarding of new talent at the Company's highest management level. The impact of these events and associated expenses are highlighted below.

Our business strategy is twofold: (1) to fulfill the growing demand for less-lethal products in the law enforcement, correctional services, and private security markets and (2) to provide civilians – including those whose work or daily activities may put them at risk of being a victim – with easy access to an effective, non-lethal way to protect themselves and their loved ones from threats to their person or property.

We believe that the United States, along with many other parts of the world, is experiencing a significant spike in the demand for less-lethal products and that the less-lethal market will be one of the faster growing segments of the security market over the next decade, particularly given the fear caused by the recent COVID-19 pandemic. The less lethal market has been projected to approach \$12 billion per year by 2023 (Statistics MRC. Non-Lethal Weapons – Global Market Outlook (2017-2023)). We plan to respond to this demand for less-lethal products through the serial production and distribution of the Byrna® HD and expansion of the Byrna product line.

RESULTS OF OPERATIONS

Results for the third quarter of 2021 demonstrate a continuing demand for our Byrna HD personal security device and to growth of the production capacity and administrative and control structures necessary to supply that demand. Most of the growth in revenue continues to be in high margin direct sales through our website. E-commerce orders account for 65.7% of total net revenue this quarter. The increasing excess of revenue over fixed production costs drove improvement in our gross margin, which was 56.2% of net revenue this quarter.

Though the COVID 19 pandemic continues to negatively affect efficiency in our South African production facility and in some of our global supply lines, the situation continues to improve this quarter in our U.S. manufacturing and corporate office facilities where there was no disruption of production or distribution and employees were not required to work remotely.

Higher sales volumes, our efforts to increase brand awareness and accessibility, and introduction of new products and accessories, drove up certain variable operating expenses such as the cost of shipping product to customers and credit card sales transactions fees. Meanwhile the structural growth required to manage a larger company with higher sales volumes has required an increase in structural operating expenses such as payroll, insurance and marketing expenses. We also incur expenses associated with operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and Nasdaq, insurance expenses, audit expenses, investor relations activities, Sarbanes-Oxley compliance expenses and other administrative expenses and professional services.

Three months ended August 31, 2021 as compared to three months ended August 31, 2020:

Net Revenue

Revenues were \$8.7 million in the third quarter of 2021 which represents an increase of \$4.5 million or 107.3% as compared to the prior year period revenues of \$4.2 million. This increase was due to higher e-commerce sales, international sales, expansion of brick and mortar sales channel and a growing market awareness of the Byrna® HD product and our expanded product line.

Cost of Goods Sold

Cost of goods sold was \$3.8 million in the third quarter of 2021 compared to \$2.1 million in the prior year period. This \$1.7 million increase is primarily due to the increase in related sales volume and also to the costs associated with the manufacture and corresponding sales of the Byrna® HD and related products.

Gross Profit

Gross profit is calculated as total revenue less cost of goods sold and gross margin is calculated as gross profit divided by total revenue. Included as cost of goods sold are costs associated with the production and procurement of products, such as labor and overhead, inbound freight costs, manufacturing depreciation, purchasing and receiving costs, inspection costs and shipping and handling costs. Gross profit was \$4.9 million in the third quarter of 2021, or 56.2% of net revenue, as compared to gross profit of approximately \$2.1 million, or 50.7% of net revenue, in the prior year period. The increase in gross profit is due to the increase in sales volume of Byrna® HD products and our expanded product line.

Operating Expenses / Loss from Operations

Operating expenses were \$6.7 million in the third quarter of 2021, as compared to the prior year period expenses of \$2.7 million. This increase is due to the growth of the Company. The growth of sales volumes drove increases in variable expenses such as freight out, which increased from \$0.02 million in the third quarter of 2020 to \$0.4 million in the third quarter of 2021. The structural growth required to manage a larger company with higher sales volumes drove up structural costs. Payroll related costs were \$2.6 million and stock compensation costs were \$1.0 million in the third quarter of 2021 as compared to \$1.0 million and \$0.01 million, respectively, in the third quarter of 2020. Insurance expense increased from \$0.1 million in the third quarter of 2020 to \$0.4 million in the third quarter of 2021. Public company costs increased from \$0.03 million in the third quarter of 2020 to \$0.1 million in the third quarter of 2021. Research and development cost increased from \$0.004 million in the third quarter of 2020 to \$0.1 million in the third quarter of 2021.

Interest Income (Expense)

Interest Income for the three months ended August 31, 2021 was \$0.01 million. This represents \$0.02 million of interest income on our cash balance, offset by \$0.01 million of interest on the asset-based loan. Interest Expense for the three months ended August 31, 2020 was \$0.

Other Financing Costs

Other financing costs represents the cost to close the asset-based loan being amortized over the three-year term of the loan agreement. This cost was \$0.01 million for the three months ended August 31, 2021 and \$0 for the same period one year earlier.

Income Tax Provision

Our effective income tax rate was 6.7% and 0% for the three months ended August 31, 2021 and 2020, respectively. Our income tax provision was \$0.1 million and \$0 for the three months ended August 31, 2021 and August 31, 2020 respectively. Our tax rate differs from the statutory rate of 21.0% due to the foreign tax rate differential as a result of Byrna South Africa, effects of permanent non-deductible expenses, the recording of a valuation allowance against the deferred tax assets generated in the past period, and other effects.

We are subject to income tax in the U.S., as well as various state and international jurisdictions. The federal and state tax authorities can generally reduce a net operating loss (but not create taxable income) for a period outside the statute of limitations in order to determine the correct amount of net operating loss which may be allowed as a deduction against income for a period within the statute of limitations.

Non-GAAP Financial Measures

In addition to providing financial measurements based on generally accepted accounting principles in the United States (GAAP), we provide the following additional financial metrics that are not prepared in accordance with GAAP (non-GAAP): adjusted EBITDA, non-GAAP net loss, and non-GAAP net loss per share. Management uses these non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate our financial performance. We believe that these non-GAAP financial measures help us to identify underlying trends in our business that could otherwise be masked by the effect of certain expenses that we exclude in the calculations of the non-GAAP financial measures.

Accordingly, we believe that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business and provides useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects.

These non-GAAP financial measures do not replace the presentation of our GAAP financial results and should only be used as a supplement to, not as a substitute for, our financial results presented in accordance with GAAP. There are limitations in the use of non-GAAP measures, because they do not include all the expenses that must be included under GAAP and because they involve the exercise of judgment concerning exclusions of items from the comparable non-GAAP financial measure. In addition, other companies may use other non-GAAP measures to evaluate their performance, or may calculate non-GAAP measures differently, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison.

Adjusted EBITDA

Adjusted EBITDA is defined as comprehensive (loss) income as reported in our consolidated statements of operations and comprehensive (loss) income excluding the impact of (i) depreciation and amortization; (ii) income tax provision (benefit); (iii) interest income (expense); (iv) stock-based compensation expense; (v) accretion of debt discounts; (vi) loss on extinguishment of debt; (vii) warrant inducement expense; and (viii) other financing costs. Our Adjusted EBITDA measure eliminates potential differences in performance caused by variations in capital structures (affecting finance costs), tax positions, the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortization expense). We also exclude certain one-time and non-cash costs. Reconciliation of Adjusted EBITDA to comprehensive (loss) income, the most directly comparable GAAP measure, is as follows (in thousands):

	For the Three Months Ended	
	August 31,	
	2021	2020
Comprehensive (loss) income	\$ (1,896)	\$ (546)
Adjustments:		
Interest income	(13)	—
Income tax provision	(74)	—
Depreciation and amortization	136	75
Non-GAAP EBITDA	(1,847)	(471)
Stock-based compensation expense	981	11
Other financing costs	9	—
Non-GAAP adjusted EBITDA	\$ (857)	\$ (460)

Non-GAAP net loss and non-GAAP net loss per share

Non-GAAP net loss is defined as comprehensive (loss) income as reported in our consolidated statements of operations and comprehensive (loss) income excluding the impact of (i) stock-based compensation expense; (ii) accretion of debt discounts; (iii) loss on extinguishment of debt; (iv) warrant inducement expense; and (v) other financing costs. Our non-GAAP net loss measure eliminates potential differences in performance caused by certain non-cash and one-time costs. We also provide non-GAAP net loss per share by dividing non-GAAP net loss by the average basic shares outstanding for the period. Reconciliation of Non-GAAP comprehensive (loss) income to Comprehensive (loss) income, the most directly comparable GAAP measure, is as follows (in thousands):

	For the Three Months Ended	
	August 31,	
	2021	2020
Comprehensive (loss) income	\$ (1,896)	\$ (546)
Adjustments:		
Stock-based compensation	981	11
Other financing costs	9	—
NON-GAAP NET LOSS	\$ (906)	\$ (535)
Non-GAAP net loss per share — basic	\$ (0.04)	\$ (0.04)
Weighted-average number of common shares outstanding during the period — basic	22,047,571	13,493,676

Nine months ended August 31, 2021 as compared to nine months ended August 31, 2020:

Net Revenue

Revenues were \$31.0 million for the nine months ended August 31, 2021, a significant increase compared to the prior year period revenues of \$5.5 million. This increase was due to higher e-commerce sales, international sales, expansion of brick and mortar sales channel and a growing market awareness of the Byrna® HD product and our expanded product line.

Cost of Goods Sold

Cost of goods sold was \$13.8 million for the nine months ended August 31, 2021 compared to \$2.9 million in the prior year period. This \$10.9 million increase is primarily due to the increase in related sales volume and also to the costs associated with the manufacture and corresponding sales of the Byrna® HD and related products.

Gross Profit

Gross profit is calculated as total revenue less cost of goods sold and gross margin is calculated as gross profit divided by total revenue. Included as cost of goods sold are costs associated with the production and procurement of products, such as inbound freight costs, manufacturing depreciation, purchasing and receiving costs, and inspection costs. Gross profit was \$17.2 million for the nine months ended August 31, 2021, a gross profit margin of 55.5% driven by sales of Byrna® HD products and accessories. Gross profit in the prior year period was \$2.6 million with a gross profit margin of 47.2%. The improvement in gross margin profitability is due to increased production efficiency and due to the improved ratio of sales volume to fixed overhead costs.

Operating Expenses / Loss from Operations

Operating expenses were \$17.4 million for the nine months ended August 31, 2021, as compared to the prior year period expenses of \$5.7 million. This increase is due to the growth of the Company, primarily increases in variable expenses due to growth of sales volumes such as freight out, which increased from \$0.03 million for the nine months ended August 31, 2020 to \$1.4 million for the nine months ended August 31, 2021 and bank fees which are primarily transaction fees on customers' credit card orders and which grew from \$0.04 million for the nine months ended August 31, 2020 to \$0.8 million for the nine months ended August 31, 2021. The structural growth required to manage a larger business with higher sales volumes drove up structural costs. Payroll related costs were \$2.2 million and stock compensation costs were \$0.7 million for the nine months ended August 31, 2020. These were \$7.0 million and \$2.5 million respectively for the nine months ended August 31, 2021. Insurance expense increased from \$0.1 million for the nine months ended August 31, 2020 to \$0.9 million for the nine months ended August 31, 2021. Marketing cost increased from \$0.8 million for the nine months ended August 31, 2020 to \$1.3 million for the nine months ended August 31, 2021.

Accretion of Debt Discounts

Accretion of debt discounts decreased \$0.8 million for the nine months ended August 31, 2021 to \$0 from \$0.8 million in the prior year period. The 2020 charge resulted from the April 8, 2020 exchange of an aggregate of approximately \$6.95 million outstanding convertible notes payable, representing principal and accrued interest through April 7, 2020, for 1,391 shares of Series A Convertible Preferred Stock. We no longer have any outstanding convertible notes payable.

Interest Expense

Interest Expense for the nine months ended August 31, 2021 was \$0.02 million. This represents interest on the asset-based loan and imputed net interest expense from the establishment of a sales financing lease. Interest Expense for the nine months ended August 31, 2020 was \$0.2 million of interest accrued on convertible notes payable. We no longer have any outstanding convertible notes payable.

Income (Loss) on Extinguishment of Debt

Income on extinguishment of debt was \$0.2 million during the nine months ended August 31, 2021 and relates to the forgiveness of the \$0.2 million of funding under the Paycheck Protection Program (“PPP”).

Loss on extinguishment of debt was \$6.0 million during the nine months ended August 31, 2020 and relates to the April 8, 2020 exchange of convertible notes payable for preferred stock.

Warrant Inducement Expense

Warrant inducement expense was \$0 for the nine months ended August 31, 2021 and \$0.8 million for the nine months ended August 31, 2020. The 2020 charge reflects the difference in fair value of warrants exercised at the reduced price of \$0.16 per warrant as compared to the \$0.25 contractual exercise price.

Other Financing Costs

Other financing costs represents the cost to close the asset-based loan being amortized over the three-year term of the loan agreement. This cost was \$0.02 million for the nine months ended August 31, 2021 and \$0 for the same period one year earlier.

Income Tax Provision

Our income tax provision was \$0.3 million and \$0 for the nine months ended August 31, 2021 and 2020, respectively. Our tax rate differs from the statutory rate of 21.0% due to the foreign tax rate differential as a result of Byrna South Africa, effects of permanent non-deductible expenses, the recording of a valuation allowance against the deferred tax assets generated in the past period, and other effects.

We are subject to income tax in the U.S., as well as various state and international jurisdictions. The federal and state tax authorities can generally reduce a net operating loss (but not create taxable income) for a period outside the statute of limitations in order to determine the correct amount of net operating loss which may be allowed as a deduction against income for a period within the statute of limitations.

Non-GAAP Financial Measures

In addition to providing financial measurements based on generally accepted accounting principles in the United States (GAAP), we provide the following additional financial metrics that are not prepared in accordance with GAAP (non-GAAP): adjusted EBITDA, non-GAAP net loss, and non-GAAP net loss per share. Management uses these non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate our financial performance. We believe that these non-GAAP financial measures help us to identify underlying trends in our business that could otherwise be masked by the effect of certain expenses that we exclude in the calculations of the non-GAAP financial measures.

Accordingly, we believe that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business and provides useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects.

These non-GAAP financial measures do not replace the presentation of our GAAP financial results and should only be used as a supplement to, not as a substitute for, our financial results presented in accordance with GAAP. There are limitations in the use of non-GAAP measures, because they do not include all the expenses that must be included under GAAP and because they involve the exercise of judgment concerning exclusions of items from the comparable non-GAAP financial measure. In addition, other companies may use other non-GAAP measures to evaluate their performance, or may calculate non-GAAP measures differently, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison.

Adjusted EBITDA

Adjusted EBITDA is defined as comprehensive (loss) income as reported in our consolidated statements of operations and comprehensive (loss) income excluding the impact of (i) depreciation and amortization; (ii) income tax provision (benefit); (iii) interest (income) expense; (iv) stock-based compensation expense; (v) accretion of debt discounts; (vi) loss on extinguishment of debt; (vii) warrant inducement expense; (viii) other income (forgiveness of PPP loan); and (ix) other financing costs. Our Adjusted EBITDA measure eliminates potential differences in performance caused by variations in capital structures (affecting finance costs), tax positions, the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortization expense). The adjustment for other income (forgiveness of PPP loan) was not included in our Adjusted EBITDA metric for the three months ended August 31, 2020 because it was not applicable to such period. We also exclude certain one-time and non-cash costs. Reconciliation of Adjusted EBITDA to comprehensive (loss) income the most directly comparable GAAP measure, is as follows (in thousands):

	For the Nine Months Ended	
	August 31,	
	2021	2020
Comprehensive (loss) income	\$ 48	\$ (10,796)
Adjustments:		
Interest expense	24	233
Income tax provision	109	—
Depreciation and amortization	353	153
Non-GAAP EBITDA	534	(10,410)
Stock-based compensation expense	2,527	659
Accretion of debt discounts	—	755
Loss on extinguishment of debt	—	6,027
Warrant inducement expense	—	845
Other income: forgiveness of PPP loan	(190)	—
Other financing costs	18	—
Non-GAAP adjusted EBITDA	\$ 2,889	\$ (2,124)

Non-GAAP net income (loss) and non-GAAP comprehensive (loss) income per share

Non-GAAP comprehensive (loss) income is defined as comprehensive (loss) income as reported in our consolidated statements of operations and comprehensive (loss) income excluding the impact of (i) stock-based compensation expense; (ii) accretion of debt discounts; (iii) loss on extinguishment of debt; and (iv) warrant inducement expense. Our non-GAAP net income (loss) measure eliminates potential differences in performance caused by certain non-cash and one-time costs. We also provide non-GAAP net income (loss) per share by dividing non-GAAP net income (loss) by the average basic or diluted shares outstanding for the period. Reconciliation of Non-GAAP comprehensive (loss) income to comprehensive (loss) income, the most directly comparable GAAP measure, is as follows (in thousands):

	For the Nine Months Ended	
	August 31,	
	2021	2020
Comprehensive (loss) income	\$ 48	\$ (10,796)
Adjustments:		
Stock-based compensation	2,527	659
Accretion of debt discounts	—	755
Loss on extinguishment of debt	—	6,027
Warrant inducement expense	—	845
Other income	(190)	—
Other financing costs	18	—
NON-GAAP NET INCOME (LOSS)	2,403	(2,510)
Preferred stock dividends	(1,043)	—
Non-GAAP net (loss) income available to common shareholders	<u>\$ 1,360</u>	<u>\$ (2,510)</u>
Non-GAAP net income (loss) per share — basic	<u>\$ 0.07</u>	<u>\$ (0.21)</u>
Weighted-average number of common shares outstanding during the period — basic	<u>18,269,360</u>	<u>12,015,065</u>

LIQUIDITY AND CAPITAL RESOURCES

During the third quarter of 2021, we received approximately \$56.0 million in cash proceeds from the sale of equity securities. See Note 17, Stockholders' Equity, in the "Notes to the Condensed Consolidated Financial Statements" in this Form 10-Q.

Cash Flow Summary

Cash and balances of restricted cash as of August 31, 2021 totaled \$58.5 million, an increase of \$48.9 million from \$9.7 million as of November 30, 2020. There was \$0 million of current restricted cash at August 31, 2021 as compared to \$6.4 million for the period ended November 30, 2020 as we fulfilled our backlogged e-commerce orders and our merchant services vendor no longer has holds placed on orders prepaid by credit cards.

Operating Activities

Cash used in operating activities was \$2.4 million for the nine months ended August 31, 2021 compared to cash provided by operations of \$4.8 million during the prior year period. Net loss was \$1.7 million and \$0.004 million for the three and nine months ended August 31, 2021, respectively. Net loss was \$0.6 million and \$10.9 million for the three and nine months ended August 31, 2020, respectively. Significant changes in noncash and working capital activity are as follows:

Our non-cash activity adds back several non-cash items to net loss to calculate cash used in operations in the nine months ended August 31, 2021. These include stock-based expense of \$2.5 million, compared to \$0.7 million for the nine months ended August 31, 2020; depreciation and amortization of \$0.4 million compared to \$0.2 million for the nine months ended August 31, 2020; and lease accounting expenses of \$0.2 million compared to \$0.08 for the nine months ended August 31, 2020. These added back amounts were partially offset by backing out non-cash income on forgiveness of debt of \$0.2 million. Additionally, non-cash activity during the nine months ended August 31, 2020 included \$6.0 million loss on extinguishment of debt.

During the nine months ended August 31, 2021, the growth of the company was reflected in the use of cash for growing working capital needs. Inventory increased during the third quarter by \$2.3 million, compared to \$2.3 million for the nine months ended August 31, 2020. Deferred revenue decreased \$4.2 million during the nine months ended August 31, 2021 compared to an increase of \$9.3 million for the nine months ended August 31, 2020 as we fulfilled backlogged e-commerce orders. Additionally, for the nine months ended August 31, 2021 accounts payable and accrued expenses increased by \$0.1 million, compared to \$2.0 million for the nine months ended August 31, 2020. This decrease was only partially offset by decreases in accounts receivable and prepaid expenses of \$1.0 million, compared to increases of \$2.0 million for the nine months ended August 31, 2020.

Investing Activities

Cash used in investing activities was \$5.4 million for the nine months ended August 31, 2021 compared to \$1.6 for the nine months ended August 31, 2020. For the nine months ended August 31, 2021, \$4.0 million was attributable to the acquisition of assets and approximately \$0.8 million for purchases of property and equipment. For the nine months ended August 31, 2020, \$0.5 million was in connection with Roboro acquisition, and approximately \$1.0 million for purchases of property and equipment.

Financing Activities

Cash provided by financing activities was \$57.2 million during the nine months ended August 31, 2021. This amount was comprised primarily of the proceeds from 2,875,000 shares of our common stock (including 375,000 shares sold pursuant to the exercise of the underwriters' overallotment option) at a price of \$21.00 per share that we issued and sold during the third quarter of 2021. The net proceeds to use, after deducting \$4.4 million in underwriting discounts and commissions and offering expenses, were approximately \$55.9 million. Additionally, we had \$1.3 million in proceeds from warrant exercises. Cash provided by financing activities was \$7.3 million during the nine months ended August 31, 2020, and included \$6.8 million proceeds from warrant exercises, \$0.5 million from Roboro's sellers and \$0.2 million from the Paycheck Protection Program.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 5, "Recent Accounting Guidance," in the Notes to Condensed Consolidated Financial Statements included in Item 1 of this report for a discussion of recently issued and adopted accounting standards.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's Condensed Consolidated Financial Statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. Our significant accounting policies are outlined in Note 4, "Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements included in Item 8 of the 2020 10-K. During the three and nine months ended August 31, 2021, there were no significant changes to the Company's critical accounting policies from those described in our 2020 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The significant growth of the Company's transactional volumes, geographical footprint, headcount, and process complexity during the fiscal year ended November 30, 2020 created the need for a more formal structure of internal control processes. To address this need, during the fourth quarter of 2020, under the direction of the Chief Financial Officer ("CFO") and with the assistance of a third-party consultant, management began a systematic risk assessment to define a comprehensive list of key control requirements. Assessment of the status of each of the newly defined control requirements and remediation of deficiencies began in October of 2020 but was not complete as of August 31, 2021.

In its assessment of the effectiveness of the Company's disclosure controls and procedures as of August 31, 2021, management concluded that the project to systematically address key control requirements was incomplete and therefore could not be relied upon. Moreover, management's assessment concluded that general information technology controls over the Company's information systems managed by third-party providers were deficient and not adequate to prevent or detect material misstatements in the Company's financial reporting. Therefore, material weaknesses in the design and operating effectiveness of the internal control over information technology systems continue to exist. For these reasons, management has concluded that the Company's disclosure controls and procedures were not effective as of August 31, 2021.

Management anticipates it will remediate the material weakness by following through with the systematic key control implementation plan during fiscal year 2021.

Changes in Internal Control Over Financial Reporting

There were no changes that occurred during the third quarter of 2021 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company occasionally becomes involved in various legal proceedings. The results of any such proceedings cannot be predicted with certainty because such matters are inherently uncertain. Significant damages or penalties may be sought in some matters, and some matters may require years to resolve. In our opinion, at this time, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company.

ITEM 1A. RISK FACTORS

Factors that could cause our actual results to differ materially from those in this report include the “Risk Factors” in Item 1A of our 2020 10-K and in Item 1A of our 2021 Q2 10-Q. As of the date of this Report, there have been no material changes to the risk factors disclosed in our 2020 10-K or our 2021 Q2 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

No.	Description of Exhibit
1.1	Underwriting Agreement, dated July 16, 2021, between the Company and Raymond James & Associates, Inc. as representatives of the underwriters named therein (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 22, 2021).
10.1	First Omnibus Loan Modification Agreement with Needham Bank, a Massachusetts co-operative bank, dated July 6, 2021 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2021).
31.1*	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial and Accounting Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer and Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	Inline XBRL Instance Document
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.SCH**	Inline XBRL Taxonomy Extension Schema Document
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished.

SIGNATURES

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

Date: October 8, 2021

Byrna Technologies Inc.

/s/ Bryan Ganz

Name: Bryan Ganz
Title: Chief Executive Officer, President and Director
(Principal Executive Officer)

Date: October 8, 2021

/s/ David North

Name: David North
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bryan Ganz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Byrna Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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: October 8, 2021

By: /s/ Bryan Ganz

Bryan Ganz
Chief Executive Officer, President, and Director
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David North, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Byrna Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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: October 8, 2021

By: /s/ David North

David North

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Byrna Technologies Inc. (the "Company") for the nine months ended August 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: October 8, 2021

By: /s/ Bryan Ganz
Bryan Ganz
Chief Executive Officer, President, and Director
(Principal Executive Officer)

By: /s/ David North
David North
Chief Financial Officer
(Principal Financial and Accounting Officer)