

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, 2024

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 Burtt 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:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common stock, \$0.001, par value per share | BYRN | Nasdaq Capital Market |

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 October 11, 2024, the Company had 22,509,399 outstanding shares of common stock.

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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, 2024 | November 30, 2023 |
|--|----------------------------|------------------------------|
| | Unaudited | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 20,077 | \$ 20,498 |
| Accounts receivable, net | 2,128 | 2,945 |
| Inventory, net | 19,797 | 13,890 |
| Prepaid expenses and other current assets | 1,983 | 868 |
| Total current assets | <u>43,985</u> | <u>38,201</u> |
| LONG TERM ASSETS | | |
| Intangible assets, net | 3,401 | 3,583 |
| Deposits for equipment | 1,927 | 1,163 |
| Right-of-use asset, net | 2,404 | 1,805 |
| Property and equipment, net | 3,481 | 3,803 |
| Goodwill | 2,258 | 2,258 |
| Loan to joint venture | — | 1,473 |
| Other assets | 1,548 | 28 |
| TOTAL ASSETS | <u>\$ 59,004</u> | <u>\$ 52,314</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 11,124 | \$ 6,158 |
| Operating lease liabilities, current | 596 | 644 |
| Deferred revenue, current | 818 | 1,844 |
| Total current liabilities | <u>12,538</u> | <u>8,646</u> |
| LONG TERM LIABILITIES | | |
| Deferred revenue, non-current | 28 | 91 |
| Operating lease liabilities, non-current | 1,899 | 1,258 |
| Total liabilities | <u>14,465</u> | <u>9,995</u> |
| COMMITMENTS AND CONTINGENCIES (NOTE 19) | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued | — | — |
| Common stock, \$0.001 par value, 50,000,000 shares authorized. 24,977,422 shares issued and 22,498,389 shares outstanding as of August 31, 2024, and 24,168,014 shares issued and 22,002,027 outstanding as of November 30, 2023 | 24 | 24 |
| Additional paid-in capital | 132,364 | 130,426 |
| Treasury stock (2,479,033 and 2,165,987 shares purchased as of August 31, 2024 and November 30, 2023, respectively) | (20,747) | (17,500) |
| Accumulated deficit | (66,456) | (69,575) |
| Accumulated other comprehensive loss | (646) | (1,056) |
| Total Stockholders' Equity | <u>44,539</u> | <u>42,319</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 59,004</u> | <u>\$ 52,314</u> |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-------------------|---------------------------|-------------------|
| | August 31, | | August 31, | |
| | 2024 | 2023 | 2024 | 2023 |
| Net revenue | \$ 20,854 | \$ 7,085 | \$ 57,777 | \$ 27,004 |
| Cost of goods sold | 7,842 | 3,927 | 22,566 | 12,402 |
| Gross profit | 13,012 | 3,158 | 35,211 | 14,602 |
| Operating expenses | 12,184 | 7,267 | 32,633 | 21,522 |
| INCOME (LOSS) FROM OPERATIONS | 828 | (4,109) | 2,578 | (6,920) |
| OTHER INCOME (EXPENSE) | | | | |
| Foreign currency transaction loss | (103) | (54) | (381) | (238) |
| Interest income | 281 | 239 | 883 | 525 |
| Loss from joint venture | (62) | (287) | (42) | (625) |
| Other income (expense) | 3 | (7) | 7 | (270) |
| INCOME (LOSS) BEFORE INCOME TAXES | 947 | (4,218) | 3,045 | (7,528) |
| Income tax benefit | 78 | 124 | 75 | 165 |
| NET INCOME (LOSS) | 1,025 | (4,094) | 3,120 | (7,363) |
| Foreign currency translation adjustment for the period | 381 | 585 | 410 | (641) |
| COMPREHENSIVE INCOME (LOSS) | <u>\$ 1,406</u> | <u>\$ (3,509)</u> | <u>\$ 3,530</u> | <u>\$ (8,004)</u> |
| Basic net income (loss) per share | <u>\$ 0.05</u> | <u>\$ (0.19)</u> | <u>\$ 0.14</u> | <u>\$ (0.34)</u> |
| Diluted net income (loss) per share | <u>\$ 0.04</u> | <u>\$ (0.19)</u> | <u>\$ 0.14</u> | <u>\$ (0.34)</u> |
| Weighted-average number of common shares outstanding - basic | <u>22,758,155</u> | <u>21,960,163</u> | <u>22,509,018</u> | <u>21,895,815</u> |
| Weighted-average number of common shares outstanding - diluted | <u>23,410,159</u> | <u>21,960,163</u> | <u>23,072,498</u> | <u>21,895,815</u> |

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, | |
| | 2024 | 2023 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) for the period | \$ 3,120 | \$ (7,363) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Stock-based compensation expense | 2,615 | 4,689 |
| Depreciation and amortization | 1,113 | 921 |
| Provision for inventory | — | 648 |
| Operating lease costs | 483 | 505 |
| Amortization of debt issuance costs | 4 | — |
| Loss from joint venture | 42 | 625 |
| Impairment loss | — | 176 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 817 | 1,968 |
| Deferred revenue | (1,089) | (8) |
| Inventory | (5,907) | (2,317) |
| Prepaid expenses and other current assets | (1,199) | 182 |
| Other assets | — | (97) |
| Accounts payable and accrued liabilities | 4,966 | (3,027) |
| Operating lease liabilities | (486) | (530) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 4,479 | (3,628) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (1,382) | (342) |
| Equity method investment in joint venture | — | (520) |
| Loan to joint venture | — | (1,556) |
| NET CASH USED IN INVESTING ACTIVITIES | (1,382) | (2,418) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from stock option exercises | 149 | — |
| Repurchase of common stock | (3,247) | — |
| Payment of taxes withheld on issuance of restricted stock units | (826) | (456) |
| NET CASH USED IN FINANCING ACTIVITIES | (3,924) | (456) |
| Effects of foreign currency exchange rate changes | 406 | 88 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE PERIOD | (421) | (6,414) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 20,498 | 20,068 |
| CASH AND CASH EQUIVALENTS END OF PERIOD | \$ 20,077 | \$ 13,654 |
| <i>Supplemental schedule of noncash operating activities:</i> | | |
| Operating lease liabilities arising from obtaining right-of-use assets | \$ 1,146 | — |
| Reclassification of interest receivable from accounts receivable to other assets | \$ 203 | — |
| Recapitalization of loan receivable in connection with the divesture of the joint venture | \$ 119 | — |

See accompanying notes to the unaudited condensed consolidated financial statements.

BYRNA TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity

For the Three and Nine Months Ended August 31, 2024 and 2023

(Amounts in thousands except share numbers)

(Unaudited)

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total |
|--|-------------------|--------------|----------------------------------|--------------------|--------------------|------------------------|---|------------------|
| | Shares | \$ | | Shares | \$ | | | |
| Balance, May 31, 2024 | 24,964,787 | \$ 24 | \$ 131,550 | (2,187,892) | \$ (17,753) | \$ (67,481) | \$ (1,027) | \$ 45,313 |
| Stock-based compensation | — | — | 819 | — | — | — | — | 819 |
| Issuance of common stock pursuant to exercise of stock options | 12,635 | — | 21 | — | — | — | — | 21 |
| Issuance of common stock pursuant to vesting of restricted stock units | — | — | (26) | — | — | — | — | (26) |
| Repurchase of common stock | — | — | — | (291,141) | (2,994) | — | — | (2,994) |
| Net income | — | — | — | — | — | 1,025 | — | 1,025 |
| Foreign currency translation | — | — | — | — | — | — | 381 | 381 |
| Balance, August 31, 2024 | 24,977,422 | \$ 24 | \$ 132,364 | (2,479,033) | \$ (20,747) | \$ (66,456) | \$ (646) | \$ 44,539 |
| Balance, May 31, 2023 | 24,032,248 | \$ 23 | \$ 128,425 | (2,165,987) | \$ (17,500) | \$ (64,653) | \$ (1,846) | \$ 44,449 |
| Stock-based compensation | — | — | 1,738 | — | — | — | — | 1,738 |
| Issuance of common stock pursuant to vesting of restricted stock units | 110,766 | 1 | (456) | — | — | — | — | (455) |
| Net loss | — | — | — | — | — | (4,094) | — | (4,094) |
| Foreign currency translation | — | — | — | — | — | — | 585 | 585 |
| Balance, August 31, 2023 | 24,143,014 | \$ 24 | \$ 129,707 | (2,165,987) | \$ (17,500) | \$ (68,747) | \$ (1,261) | \$ 42,223 |

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total |
|--|-------------------|--------------|----------------------------------|--------------------|--------------------|------------------------|---|------------------|
| | Shares | \$ | | Shares | \$ | | | |
| Balance, November 30, 2023 | 24,168,014 | \$ 24 | \$ 130,426 | (2,165,987) | \$ (17,500) | \$ (69,575) | \$ (1,056) | \$ 42,319 |
| Stock-based compensation | — | — | 2,615 | — | — | — | — | 2,615 |
| Issuance of common stock pursuant to exercise of stock options | 220,067 | — | 149 | — | — | — | — | 149 |
| Issuance of common stock pursuant to vesting of restricted stock units | 589,341 | — | (826) | — | — | — | — | (826) |
| Repurchase of common stock | — | — | — | (313,046) | (3,247) | — | — | (3,247) |
| Net income | — | — | — | — | — | 3,120 | — | 3,120 |
| Foreign currency translation | — | — | — | — | — | — | 410 | 410 |
| Balance, August 31, 2024 | 24,977,422 | \$ 24 | \$ 132,364 | (2,479,033) | \$ (20,747) | \$ (66,456) | \$ (646) | \$ 44,539 |
| Balance, November 30, 2022 | 24,018,612 | \$ 23 | \$ 125,474 | (2,165,987) | \$ (17,500) | \$ (61,383) | \$ (620) | \$ 45,994 |
| Stock-based compensation | — | — | 4,689 | — | — | — | — | 4,689 |
| Issuance of common stock pursuant to vesting of restricted stock units | 124,402 | 1 | (456) | — | — | — | — | (455) |
| Net loss | — | — | — | — | — | (7,363) | — | (7,363) |
| Foreign currency translation | — | — | — | — | — | — | (641) | (641) |
| Balance, August 31, 2023 | 24,143,014 | \$ 24 | \$ 129,707 | (2,165,987) | \$ (17,500) | \$ (68,747) | \$ (1,261) | \$ 42,223 |

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, 2024 and 2023

1. NATURE OF OPERATIONS

Byrna Technologies Inc. (the “Company” or “Byrna”) is a technology company, specializing in next generation alternatives to traditional firearms without the risk of taking a life. The Company's launchers can be used for self-defense and personal security by consumers in all 50 states without a firearms license, subject to local regulations. The Company also sells accessories, pepper sprays, and other personal safety tools. Most of the sales are to consumers in the United States via our Company e-commerce site, the Amazon storefront, or the brick and mortar location in Las Vegas, and through retailers, including big box stores. The Company's products also may be sold to private security and public security officers. Since 2020, the Company has not manufactured or sold any products to or for use by the military. The Company operates two manufacturing facilities, a 30,000 square foot facility located in Fort Wayne, Indiana and a 20,000 square foot manufacturing facility located in Pretoria, South Africa.

2. OPERATIONS AND MANAGEMENT PLANS

From inception to August 31, 2024, the Company has incurred an accumulated deficit of approximately \$66.5 million. The Company has funded operations through the issuance of the Company's common stock par value \$0.001 per share (“Common Stock”) until reaching profitability. The Company generated net income of \$3.1 million and operating cash flows of \$4.5 million for the nine months ended August 31, 2024. The Company’s future success is dependent upon its ability to continue to raise sufficient capital or generate adequate revenues, to cover its ongoing operating expenses, and also to continue to develop and be able to profitably market its products.

3. BASIS OF PRESENTATION

These unaudited condensed consolidated financial statements for the three and nine months ended August 31, 2024 and 2023 include the accounts of the Company and its subsidiaries. These 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 generally accepted accounting principles 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. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 the Company's annual report on Form 10-K for the year ended November 30, 2023. 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, 2024 and 2023, and its cash flows for the nine months ended August 31, 2024 and 2023 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 stock-based compensation expense, valuation for deferred tax assets, incremental borrowing rate on leases, valuation and carrying value of goodwill and other identifiable intangible assets, useful life of long-lived assets, inventory reserves, and allowance for credit losses.

5. RECENT ACCOUNTING GUIDANCE

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). ASUs not discussed below were assessed and determined to be either not applicable or are expected to have minimal impact on the financial statements.

Recently Adopted Accounting Pronouncement

In 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance changes the impairment model used to measure credit losses for most financial assets. A new forward-looking expected credit loss model replaced the existing incurred credit loss model and applies to the Company's accounts receivables. This is expected to generally result in earlier recognition of allowances for credit losses. The Company adopted ASU 2016-13 on December 1, 2023, and it did not have a material impact on the Company's financial statements.

Accounting Pronouncements Issued but Not Adopted

In 2023, the FASB issued ASU 2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This update standardizes categories for the effective tax rate reconciliation, requires disaggregation of income taxes and additional income tax-related disclosures. This update is required to be effective for the Company for fiscal years beginning after December 15, 2024. The Company is evaluating the effect that ASU 2023-09 will have on its financial statements and disclosures.

The FASB also issued ASU 2023-07: Segment Reporting Topic 280 - Improvements to Reportable Segment Disclosures. This update requires expanded annual and interim disclosures for significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss. This update will be effective for fiscal years beginning after December 15, 2023, and is to be applied retrospectively to all periods presented in the financial statements. Early adoption is permitted. The Company is evaluating the effect that ASU 2023-07 will have on its financial statements and disclosures and believes it will not have a material impact on the Company's consolidated financial statements.

6. GOODWILL

Goodwill resulting from a business combination is not amortized but is reviewed for impairment annually or more frequently when events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has the option to perform a qualitative assessment over goodwill when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or to bypass the qualitative assessment in any period and proceed directly to performing the quantitative goodwill impairment test. If the Company concludes, based on the qualitative assessment, that the carrying value of a reporting unit would more likely than not exceed its fair value, a quantitative assessment is performed which is based upon a comparison of the reporting unit's fair value to its carrying value. The fair values used in this evaluation are estimated by the Company based upon future discounted cash flow projections for the reporting unit. An impairment charge is recognized for any amount by which the carrying amount of goodwill exceeds its fair value.

The Company assesses goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a component. The Company's operations constitute a single reporting unit and goodwill is assessed for impairment at the Company level as a whole.

Change in Timing of Goodwill Impairment Testing

In accordance with Accounting Standards Codification (ASC) 350, "Intangibles – Goodwill and Other," the Company historically conducted its annual goodwill impairment analysis in the third quarter of each fiscal year. However, for the fiscal year ending November 30, 2024, the Company has elected to change the timing of its annual goodwill impairment review to the fourth quarter. This decision was made to better align the analysis with the Company's strategic planning processes and to ensure a more comprehensive evaluation of goodwill in light of the latest operational and market conditions. The Company will continue to monitor goodwill for signs of impairment and perform interim assessments if necessary. This change in timing will not impact the Company's overall goodwill balance or financial position, but it may enhance the accuracy and relevance of the impairment assessment conducted.

7. INVESTMENT IN JOINT VENTURE

In January 2023, the Company acquired a 51% ownership interest in Byrna LATAM, a corporate joint venture formed to expand the Company's operations and presence in South American markets, for \$0.5 million. The Company accounted for the investment in the joint venture using the equity method since the Company did not have voting control of Byrna LATAM. Additionally, the Company did not have substantive participating rights that would result in the Company having control of Byrna LATAM. The Company recorded its share of the joint venture's losses during the three and nine months ended August 31, 2024 of less than \$0.1 million, and losses of less than \$0.3 million and \$0.6 million during the three and nine months ended August 31, 2023, respectively, in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) as loss from joint venture. The carrying value of the Company's investment in the joint venture at August 31, 2024 and November 30, 2023 is at zero in the Condensed Consolidated Balance Sheets.

On August 19, 2024, the Company sold its 51% ownership interest to Fusady S.A. for \$1 (the "LATAM Share Purchase Agreement") and entered into an exclusive distribution, manufacturing and licensing agreement with Byrna LATAM (the "LATAM Licensing Agreement"). This LATAM Licensing Agreement allows Byrna LATAM to exclusively manufacture the Byrna SD launcher and ammunition in certain South American countries and requires Byrna LATAM to pay the Company a royalty on Byrna products manufactured. The amount of royalty earned and outstanding at end of August 31, 2024, was not material. The LATAM Share Purchase Agreement also includes put and call rights based on defined triggers which expire on August 19, 2029.

In January 2023, the Company loaned \$1.6 million to Byrna LATAM. The loan bore interest at a rate equal to Secured Overnight Financing Rate ("SOFR") plus 3.0%. Interest income related to the loan receivable was less than \$0.1 million for both the three and nine months ended August 31, 2024, respectively. The interest income is included in interest income in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). On August 19, 2024, the loan was amended to fix the loan amount at \$1,431,112 plus accrued interest of \$203,373 for a total loan amount of \$1,634,485. The loan bears an annual rate of interest of 5% per annum. The loan will be repaid in twelve equal installments starting on August 19, 2025. The loan receivable was recorded as loan to joint venture in the Consolidated Balance Sheets until the consummation of the LATAM Share Purchase Agreement at which time the Company recorded the current portion of the loan as part of Prepaid expenses and other current assets and the non-current portion is recorded as part of the Other assets on the Condensed Consolidated Balance Sheet as of August 31, 2024.

8. ADVERTISING COSTS

Advertising costs are expensed as incurred and reported in Operating Expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), and include costs of advertising, tradeshow, and other activities designed to enhance demand for the Company's products. The Company recorded advertising costs of approximately \$3.2 million and \$8.6 million for the three and nine months ended August 31, 2024, respectively, and \$0.6 million and \$2.1 million for the three and nine months ended August 31, 2023, respectively.

9. REVENUE, DEFERRED REVENUE AND ACCOUNTS RECEIVABLE

The Company generates most of its revenue through e-commerce portals to consumers, as well as wholesale distribution of its products and accessories to dealers/distributors and retail stores. The Company also sells products to large end-users such as private security companies and law enforcement agencies. The Company does not manufacture or sell any products regulated by the Bureau of Alcohol, Tobacco, Firearms and Explosives or for military applications. 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 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 is 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 offers e-commerce customers a 14-day money-back guarantee, which allows for a full refund of the purchase price, excluding shipping charges, within 14 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 reserve for returns under the 14-day money back guarantee for the three and nine months ended August 31, 2024 and 2023 was immaterial.

The Company does not offer a money-back guarantee to dealers or retailers. These customers may request a return or credit for unforeseen reasons or may have agreed discounts or allowances to be netted from amounts invoiced. Accordingly, the Company reserves for returns, discounts and allowances based on past performance and on agreement terms and reports revenue net of the estimated reserve. The Company's reserve for returns, discounts, and allowances for the three and nine months ended August 31, 2024 and 2023 was immaterial.

The Company accounts for shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated products. Shipping and handling costs associated with the distribution of finished products to customers, are recorded in operating expenses in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and are recognized when the product is shipped to the customer.

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.

Accounts Receivable

The Company records accounts receivables due from dealers/distributors, large end-users such as retail stores, security companies, and law enforcement agencies. Accounts receivable, net of allowances, was \$2.1 million, \$2.9 million and \$5.9 million as of August 31, 2024, November 30, 2023, and November 30, 2022, respectively.

Allowance for Expected Credit Losses

The Company estimates the balance of its allowance for expected credit losses. In determining the amount of the allowance for credit losses, the Company considers historical collectability based on past due status and makes judgments about the creditworthiness of customers based on ongoing credit evaluations. The Company also considers customer-specific information, current market conditions, and reasonable and supportable forecasts of future economic conditions. Account balances are written off against the allowance when it is determined that the receivable will not be recovered. As of August 31, 2024, November 30, 2023, and November 30, 2022, the total allowance for credit losses recorded was \$0.3 million, \$0.5 million and less than \$0.02 million, respectively.

Deferred Revenue

The balance of deferred revenue, which relate to unfulfilled e-commerce orders and amounts to be recognized under extended 3-year service warranty, as of August 31, 2024 and August 31, 2023 was \$0.8 million and \$0.8 million, respectively, and \$1.9 million and \$0.8 million as of November 30, 2023 and 2022, respectively. The Company recognized warranty revenue totaling \$0.1 million and \$0.2 million, respectively, during the three and nine months ended August 31, 2024 and \$0.4 million and \$0.5 million, respectively, during the three and nine months ended August 31, 2023.

Revenue Disaggregation

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

| <i>Distribution channel</i> | Three Months Ended August 31, | | Nine Months Ended August 31, | |
|----------------------------------|--|-----------------|---|------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Wholesale (dealer/distributors) | \$ 4,781 | \$ 2,327 | \$ 13,512 | \$ 9,295 |
| E-commerce (direct to consumers) | 16,073 | 4,758 | 44,265 | 17,709 |
| Total | \$ 20,854 | \$ 7,085 | \$ 57,777 | \$ 27,004 |

10. INVENTORY

The following table summarizes inventory (in thousands):

| | August 31, 2024 | November 30, 2023 |
|-----------------|----------------------------|------------------------------|
| Raw materials | \$ 12,614 | \$ 7,543 |
| Work in process | 3,467 | 2,439 |
| Finished goods | 3,716 | 3,908 |
| Total | \$ 19,797 | \$ 13,890 |

11. PROPERTY AND EQUIPMENT

The following table summarizes cost and accumulated depreciation (in thousands):

| | August 31, 2024 | November 30, 2023 |
|---------------------------------|----------------------------|------------------------------|
| Computer equipment and software | \$ 838 | \$ 817 |
| Furniture and fixtures | 277 | 273 |
| Leasehold improvements | 1,050 | 989 |
| Machinery and equipment | 3,872 | 3,425 |
| | 6,037 | 5,504 |
| Less: accumulated depreciation | 2,555 | 1,701 |
| Total | \$ 3,481 | \$ 3,803 |

The Company recognized \$0.9 million and \$0.7 million in depreciation expense during the nine months ended August 31, 2024 and 2023, respectively. The Company recognized \$0.4 million and \$0.3 million in depreciation expense during the three months ended August 31, 2024 and 2023, respectively. Depreciation expense is presented in the operating expenses and within cost of goods sold in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

At August 31, 2024 and November 30, 2023, the Company had deposits of \$1.9 million and \$1.2 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.

12. INTANGIBLE ASSETS

The components of intangible assets were as follows (in thousands):

| | Estimated Useful Lives in Years | Balance at August 31, 2024 | | | Balance at November 30, 2023 | | |
|---------------|---------------------------------|----------------------------|--------------------------|---------------------|------------------------------|--------------------------|---------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patents | 10-17 | \$ 3,955 | \$ (914) | \$ 3,041 | \$ 3,931 | \$ (723) | \$ 3,208 |
| Trademarks | Indefinite | 360 | — | 360 | 360 | — | 360 |
| Customer List | 2 | 70 | (70) | — | 70 | (55) | 15 |
| Total | | \$ 4,385 | \$ (984) | \$ 3,401 | \$ 4,361 | \$ (778) | \$ 3,583 |

The trademarks have an indefinite life and are assessed annually for impairment. All other intangible assets are finite-lived.

Intangible assets amortization expenses are recorded within operating expenses in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Total intangible assets amortization expense for the nine months ended August 31, 2024 and 2023 were \$0.1 million and \$0.2 million, respectively. Total intangible assets amortization expense for the three months ended August 31, 2024 and 2023 were less than \$0.1 million and \$0.1 million, respectively.

Estimated future amortization expense related to intangible assets as of August 31, 2024 are as follows (in thousands):

| Fiscal Year Ending November 30, | |
|---------------------------------|----------------|
| 2024 (remaining three months) | \$ 64 |
| 2025 | 257 |
| 2026 | 257 |
| 2027 | 257 |
| 2028 | 257 |
| Thereafter | 1,949 |
| Total | \$3,041 |

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | August 31, 2024 | November 30, 2023 |
|---------------------------|------------------|-------------------|
| Trade payables | \$ 7,166 | \$ 2,617 |
| Accrued sales and use tax | 462 | 834 |
| Accrued people costs | 2,889 | 2,173 |
| Accrued professional fees | 258 | 201 |
| Other accrued liabilities | 349 | 333 |
| Total | \$ 11,124 | \$ 6,158 |

14. STOCKHOLDERS' EQUITY

Stock Buyback Program

On July 31, 2024, the Company's Board of Directors approved a plan to buy back up to \$10 million worth of shares of Common Stock (the "Stock Buyback Program"). The Company's Stock Buyback Plan is intended to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. The Stock Buyback Program will expire on the sooner of the two-year anniversary of its initiation or until we reach the aggregate limit of \$10 million for the repurchases under the program. The repurchased shares are recorded as part of treasury stock and are accounted for under the cost method. In the three months ended August 31, 2024, we repurchased 0.3 million shares of common stock for \$3.0 million.

The following table summarizes the treasury stock activity during the three months ended August 31, 2024:

| | <u>Number of Shares (in thousands)</u> | <u>Cost of Shares (in thousands)</u> | <u>Average Cost per Share</u> |
|-------------|--|--------------------------------------|-------------------------------|
| June 2024 | — | \$ — | \$— |
| July 2024 | — | - | - |
| August 2024 | 291 | 2,994 | 10.3 |
| Total | 291 | \$ 2,994 | \$10.3 |

15. STOCK-BASED COMPENSATION

2020 Plan

On October 23, 2020, the Company's Board of Directors approved and on November 19, 2020, the stockholders approved the Byrna Technologies Inc. 2020 Equity Incentive Plan (the "2020 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 3,800,000 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 Plan are employees, officers, directors, consultants, advisors and other individual service providers of the Company. Awards are at the discretion of the Compensation Committee.

The Company accounts for all stock-based payment awards granted to employees and non-employees as stock-based compensation expense at their grant date fair value. The Company's stock-based payments include stock options, RSUs, and incentive warrants. The measurement date for employee awards is the date of grant, and stock-based compensation costs are recognized as expense over the employees' requisite service period, on a straight-line basis. The measurement date for non-employee awards is generally the date the services were completed, resulting in financial reporting period adjustments to stock-based compensation during either the expected term or the contractual term. Stock-based compensation costs for non-employees are recognized as expense over the vesting period on a straight-line basis. Forfeitures are accounted for as they occur.

The fair value of each grant is estimated on the date of grant by using either the Black-Scholes, Binomial Lattice, or the quoted stock price on the date of grant, unless the awards are subject to market conditions in which case the Company uses the Monte Carlo simulation model. Due to the Company's limited history, the expected term of the Company's stock options granted to employees has been determined utilizing the method as prescribed by the SEC's Staff Accounting Bulletin, Topic 14. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that the Company has never paid cash dividends on Common Stock and does not expect to pay any cash dividends in the foreseeable future.

Stock-Based Compensation Expense

Stock-based compensation costs are recognized as expense over the employee's requisite service period, on a straight-line basis. Total stock-based compensation expense was \$2.6 million and \$4.7 million for the nine months ended August 31, 2024 and 2023, respectively. Total stock-based compensation expense was \$0.8 million and \$1.7 million for the three months ended August 31, 2024 and 2023, respectively. Total stock-based compensation expense was recorded in Operating expenses in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Restricted Stock Units

During the nine months ended August 31, 2024 the Company granted 600,000 of the RSU's with a "double trigger" for vesting based on stock price and time, as follows: (1) one-third of the RSUs will be triggered when the Company's stock trades above \$6.00 on a 20-day VWAP, the second one-third of the RSUs will be triggered when the Company's stock trades above \$9.00 on a 20-day VWAP, and the final one-third of the RSUs will be triggered when the stock trades above \$12.00 on a 20-day VWAP and (2) the employee must remain employed by the Company for three years from the effective date for the RSUs to vest. During the nine months ended August 31, 2023, the Company did not grant "double trigger" RSUs. In addition, the Company also granted 109,706 and 9,805 time-based RSU's during the nine months ended August 31, 2024 and 2023, respectively. Stock-based compensation expense for the RSUs for the nine months ended August 31, 2024 and 2023 was \$1.2 million and \$3.4 million, respectively, and for the three months ended August 31, 2024 and 2023 was \$0.4 million and \$1.3 million, respectively.

The assumptions that the Company used in a Monte Carlo simulation model to determine the grant-date fair value of RSU's granted with a double trigger for the nine months ended August 31, 2024 were as follows:

| | | |
|---|----|-------|
| Risk free rate | | 4.33% |
| Expected dividends | \$ | — |
| Expected volatility | | 33% |
| Expected life (in years) | | 2.7 |
| Market price of the Company's Common Stock on date of grant | \$ | 6.03 |

As of August 31, 2024, there was \$2.3 million of unrecognized stock-based compensation cost related to unvested RSUs which is expected to be recognized over a weighted average of 1.7 years.

The following table summarizes the RSU activity during the nine months ended August 31, 2024:

| | RSUs |
|--|-----------|
| Unvested and outstanding as of November 30, 2023 | 976,226 |
| Granted | 709,706 |
| Settled | (658,281) |
| Forfeited | (114,193) |
| Unvested and outstanding at August 31, 2024 | 913,458 |

Of the 658,281 restricted units issued, 47,035 units were returned to the Company in exchange for the Company paying for the payroll withholding taxes, and 21,905 units were repurchased by the Company for \$0.3 million for shares withheld to pay the payroll tax liability of the vesting RSUs and treated as treasury stock. For the nine months ended August 31, 2024, RSUs of 589,341, net, were issued.

Stock Options

The Company recorded stock-based compensation expense for options granted to its employees and directors of \$1.4 million and \$1.3 million during the nine months ended August 31, 2024 and 2023, respectively, and for the three months ended August 31, 2024 and 2023 was \$0.4 million and \$0.4 million, respectively. As of August 31, 2024, there was \$1.8 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.4 years.

Stock Option Valuation

The fair value of stock options at the date of grant was estimated using the Black Scholes option pricing model. The assumptions that the Company used to determine the grant-date fair value of stock options granted for the nine months ended August 31, 2024 were as follows:

| | | |
|---|----|--------|
| Risk free rate | | 4.10% |
| Expected dividends | \$ | — |
| Expected volatility | | 75.75% |
| Expected life (in years) | | 6.5 |
| Market price of the Company's Common Stock on date of grant | \$ | 6.89 |

The following table summarizes option activity under the 2020 Plan during the nine months ended August 31, 2024:

| | Stock Options | Weighted-Average Exercise Price Per Stock Option |
|--------------------------------|------------------|--|
| Outstanding, November 30, 2023 | 1,384,666 | \$ 7.12 |
| Granted | 199,500 | 6.89 |
| Exercised | (274,084) | 2.67 |
| Forfeited | (43,875) | 6.99 |
| Outstanding, August 31, 2024 | 1,266,207 | \$ 9.12 |
| Exercisable, August 31, 2024 | 997,352 | \$ 9.45 |

Of the 274,084 shares issued upon exercise of options, 54,017 options were surrendered due to cashless exercise.

16. EARNINGS PER SHARE

For the three and nine months ended August 31, 2024, the Company recorded net income and, as such, used diluted weighted-average common shares outstanding when calculating diluted income per share for the three and nine months ended August 31, 2024. Stock options and RSUs that could potentially dilute basic earnings per share ("EPS") in the future are included in the computation of diluted income per share.

For the three and nine months ended August 31, 2023, the Company recorded net loss available to common shareholders. As such, because the dilution impact 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, 2023.

The following table sets forth the allocation of net income (loss) for the three and nine months ended August 31, 2024 and 2023, respectively:

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|------------|---------------------------|------------|
| | August 31, | | August 31, | |
| | 2024 | 2023 | 2024 | 2023 |
| Net income (loss) | \$ 1,025 | \$ (4,094) | \$ 3,120 | \$ (7,363) |
| Weighted-average number of shares used in computing net income (loss) per share, basic | 22,758,155 | 21,960,163 | 22,509,018 | 21,895,815 |
| Net income (loss) per share - basic | \$ 0.05 | \$ (0.19) | \$ 0.14 | \$ (0.34) |
| Weighted-average number of shares used in computing net income (loss) per share, diluted | 23,410,159 | 21,960,163 | 23,072,498 | 21,895,815 |
| Net income (loss) per share - diluted | \$ 0.04 | \$ (0.19) | \$ 0.14 | \$ (0.34) |

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the three and nine months ended August 31, 2024 and 2023:

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|------------|---------------------------|------------|
| | August 31, | | August 31, | |
| | 2024 | 2023 | 2024 | 2023 |
| Weighted-average common shares outstanding- basic | 22,758,155 | 21,960,163 | 22,509,018 | 21,895,815 |
| Assumed conversion of: | | | | |
| Dilutive stock options | 135,886 | — | 113,617 | — |
| Dilutive RSUs | 516,118 | — | 449,863 | — |
| Weighted-average common share outstanding- diluted | 23,410,159 | 21,960,163 | 23,072,498 | 21,895,815 |

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 | | For the Nine Months Ended | |
|---------|----------------------------|-----------|---------------------------|-----------|
| | August 31, | | August 31, | |
| | 2024 | 2023 | 2024 | 2023 |
| Options | 437,666 | 1,452,499 | 437,666 | 1,452,499 |
| RSUs | 16,513 | 499,502 | 41,513 | 499,502 |
| Total | 454,179 | 1,952,001 | 479,179 | 1,952,001 |

17. 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 and due on demand.

The Company terminated the royalty payments to the Company's former CTO in December 2021 and granted 200,000 RSUs during the fiscal year ended November 30, 2022 in exchange to waive all future rights and entitlements to the former CTO. During the fiscal year ended November 30, 2023, the Company and the former CTO agreed to immediately accelerate the 200,000 RSUs, which resulted in \$0.5 million in accelerated stock compensation expense.

The Company subleases office premises at its Massachusetts headquarters to a corporation owned and controlled by the Chief Executive Officer ("CEO") of the Company beginning July 1, 2020, with no stated termination date. Sublease payments received were a nominal amount for the three and nine months ended August 31, 2024 and 2023.

Fusady is owned, in equal 25% shares, by four individual investors. These four individuals also each own 25% of Bersa S.A. Bersa S.A. is a distributor of the Company's products in Argentina. There were \$0.1 million sales to Bersa S.A. during the three and nine months ended August 31, 2024 and less than \$0.06 million and \$0.1 million for the three and nine months ended August 31, 2023. As of November 30, 2023, the Company had accounts receivable of approximately \$1.6 million. Because of the divestiture of the joint venture, Fusady is no longer considered a related party as of August 31, 2024.

18. 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 entered into a real estate lease for office space in Andover, Massachusetts. In August 2021, the lease was amended to include additional space and extend the term of the existing space by one year. The new lease expiration date is February 29, 2028.

The Company leases office and warehouse space in South Africa. The Company has exercised its right to extend the lease for an additional year. The lease, which was originally set to expire in December 2024, will now be extended to December 2025.

The Company leases warehouse and manufacturing space in Fort Wayne, Indiana. The lease expires on July 31, 2025. Commencing in August 2022, the Company sub-leased the former Fort Wayne facility. The amount received from the sub-lease is immaterial. In March 2024, the Company terminated the lease and sublease on the former Fort Wayne facility.

Commencing in July 2024, the Company entered into a new operating lease for warehouse and retail office space located in Fort Wayne, Indiana. The lease term is for seven years, commencing on July 15, 2024 and expiring on July 14, 2029. As of August 31, 2024, the total right-of-use asset amounting to \$0.3 million and the corresponding lease liability of \$0.3 million are reflected in the Company's financial statements.

The Company also leases office space in Las Vegas, Nevada, which expires on January 31, 2027.

Commencing in August 2024, the Company entered into a new operating lease for retail office space located in Salem, New Hampshire. The lease term is for seven years, commencing on August 22, 2024 and expiring on August 21, 2029. As of August 31, 2024, the total right-of-use asset amounting to \$0.1 million and the corresponding lease liability of \$0.1 million are reflected in the Company's financial statements.

Commencing in August 2024, the Company entered into a new operating lease for retail office space located in Scottsdale, Arizona. The lease term is for ten years, commencing on August 27, 2024 and expiring on July 31, 2032. As of August 31, 2024, the total right-of-use asset amounting to \$0.7 million and the corresponding lease liability of \$0.7 million are reflected in the Company's financial statements.

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.

For the three and nine months ended August 31, 2024, the elements of lease expense were as follows (in thousands):

| | <u>Three Months Ended</u> <u>August 31, 2024</u> | <u>Nine Months Ended</u> <u>August 31, 2024</u> |
|--|---|--|
| Lease Cost: | | |
| Operating lease cost | \$ 151 | \$ 459 |
| Total lease cost | \$ 151 | \$ 459 |
| Other Information: | | |
| Cash paid for amounts included in the measurement of operating lease liabilities | \$ 166 | \$ 504 |
| Operating lease liabilities arising from obtaining right-of-use assets | \$ 1,146 | \$ 1,146 |
| Operating Leases: | | |
| Weighted-average remaining lease term (in years) | | 4.6 |
| Weighted-average discount rate | | 8.3% |

Future lease payments under non-cancelable operating leases as of August 31, 2024 are as follows (in thousands):

| Fiscal Year Ending November 30, | |
|--|----------|
| 2024 (three months) | \$ 163 |
| 2025 | 714 |
| 2026 | 747 |
| 2027 | 623 |
| 2028 | 289 |
| Thereafter | 555 |
| Total lease payments | 3,091 |
| Less: imputed interest | 525 |
| Present value of operating lease liabilities | \$ 2,495 |
| Operating lease liabilities, current | \$ 596 |
| Operating lease liabilities, non-current | \$ 1,899 |

19. INCOME TAXES

For the three months ended August 31, 2024, the Company recorded \$0.1 million of income tax benefit. For the three months ended August 31, 2023, the Company recorded an income tax benefit of \$0.1 million. For the three months ended August 31, 2024 and 2023, the effective tax rate was 0.1% and 2.8%, respectively. For the nine months ended August 31, 2024, the Company recorded \$0.1 million of income tax benefit. For the nine months ended August 31, 2023, the Company recorded an income tax benefit of \$0.2 million. For the nine months ended August 31, 2024 and 2023, the effective tax rate was 0.2% and 2.2%, 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 current period, and other effects.

20. COMMITMENTS AND CONTINGENCIES

Royalty Payment

Pursuant to the Purchase and Sale Agreement, dated April 13, 2018, and further amended on December 19, 2019, the Company was committed to a minimum royalty payment of \$0.03 million per year. Royalties on CO2 pistols were to be paid for so long as patents remain effective. 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. On January 7, 2022, the Company and its former CTO agreed to waive all future rights and entitlements under such agreement, including without limitation any right, title, or interest in the intellectual property or royalty fees except for those on the fintail projectiles. In exchange for the royalty termination, the Company agreed to grant 200,000 RSUs on August 3, 2022, which then vests in two years from January 7, 2022. In June 2023, the Company and the former CTO agreed to accelerate the vesting of the 200,000 RSUs, and the Company recognized stock compensation expense of \$1.0 million associated with the RSUs during the year ended November 30, 2023.

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.

21. SEGMENT AND GEOGRAPHICAL DISCLOSURES

The CEO, who is also the Chief Operating Decision Maker, evaluates the entire 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, 2024 and 2023, respectively, by geographic region (in thousands):

Revenue:

| Three Months Ended | U.S./Mexico | | Europe/South America/Asia | | Canada | | Total |
|--------------------|-------------|--------------|---------------------------|--------|-----------|--|-------|
| | U.S./Mexico | South Africa | Europe/South America/Asia | Canada | | | |
| August 31, 2024 | \$ 19,264 | \$ 53 | \$ 812 | \$ 725 | \$ 20,854 | | |
| August 31, 2023 | 6,784 | 115 | 32 | 154 | 7,085 | | |

| Nine Months Ended | U.S. | | Europe/South America/Asia | | Canada | | Total |
|-------------------|-----------|--------------|---------------------------|----------|-----------|--|-------|
| | U.S. | South Africa | Europe/South America/Asia | Canada | | | |
| August 31, 2024 | \$ 53,462 | \$ 157 | \$ 2,344 | \$ 1,814 | \$ 57,777 | | |
| August 31, 2023 | 24,780 | 326 | 1,239 | 659 | 27,004 | | |

22. 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 changes in economic conditions.

During the nine months ended August 31, 2024, in comparison to the prior year period, the U.S. dollar on average was stronger 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. The Company recorded a translation adjustment gain of \$0.4 million and loss of \$0.6 million related to the South African rand during the nine months ended August 31, 2024 and 2023, 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, cash equivalents, accounts receivable, and the loan receivable from Byrna LATAM. 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 is exposed to credit losses on accounts receivable balances. The Company uses a simplified approach to calculate a general provision for credit losses. An allowance is calculated for each aging "bucket," based on the risk profile of that bucket. The Company revisits the reserve periodically, but no less than quarterly, with the same analytical approach in order to determine if the allowance needs to be increased or decreased, based calculation of each aging bucket.

The Company loaned \$1.6 million to Byrna LATAM in January 2023. The Company determines if an estimate for a credit loss on this loan is needed by considering the financial position of Byrna LATAM, the current economic environment, collections on our accounts receivable balances with Byrna LATAM, as well reasonable and supportable forecasts to support the payment of this loan. The Company reviews these factors quarterly to determine if any adjustments are needed.

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 Securities Exchange Act of 1934, as amended, (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," "may," "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 year ended November 30, 2023 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 14, 2024, as amended on March 29, 2024 (the "2023 10-K"), and the Company's subsequent filings with the SEC, all of 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 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, restrictions or prohibitions imposed by advertising platforms, 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 Bureau of Alcohol, Tobacco, and Firearms, import and export regulators, or other federal or state authority, or changes in international law in key jurisdictions including South America and 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 unaudited condensed 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.

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. We plan to respond to this demand for less-lethal products through the serial production and distribution of the Byrna® SD and expansion of the Byrna product line.

On January 10, 2023, we created a new joint venture ("Byrna LATAM") with Fusady S.A. ("Fusady") located in Uruguay, to expand our operations and presence in South American markets. We held 51% of the stock in Byrna LATAM, and the remaining 49% of stock in Byrna LATAM was held by Fusady. Under the terms of the joint venture, we did not control the Byrna LATAM. On August 19, 2024 we sold our 51% ownership interest to Fusady S.A. for \$1 and entered into an exclusive distribution, manufacturing and licensing agreement with Byrna LATAM. The LATAM Licensing Agreement allows Byrna LATAM to exclusively manufacture the Byrna SD launcher and ammunition in certain South American countries and requires Byrna LATAM to pay us a royalty on Byrna products manufactured. The LATAM Share Purchase Agreement also includes put and call rights based on defined triggers that expire August 19, 2029.

On July 31, 2024, our Board of Directors approved a plan to buy back up to \$10 million worth of shares of our common stock (the "Stock Buyback Program"). The Stock Buyback Program is intended to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. The Stock Buyback Program will expire on the sooner of the two-year anniversary of its initiation or until we reach the aggregate limit of \$10 million for the repurchases under the program.

RESULTS OF OPERATIONS

Three months ended August 31, 2024 as compared to three months ended August 31, 2023:

Net Revenue

Revenues were \$20.9 million in the third fiscal quarter of 2024 which represents an increase of \$13.8 million, or 194%, as compared to the prior year period revenues of \$7.1 million. Most of the increase in revenue can be attributed to a new marketing strategy, implemented in September of 2023, shifting advertising efforts away from social media platforms and towards celebrity endorsers. Direct to customer sales, via Amazon and our website, increased by \$11.0 million, or 216%, from \$5.1 million in the fiscal quarter of 2023 to \$16.1 million in the fiscal quarter of 2024. Sales to domestic dealers and retailers also improved, increasing by 107% to \$3.4 million from \$1.7 million in the three months ended August 31, 2023. Sales to Canadian customers increased by \$0.2 million or 100% to \$0.4 million for the three months ended August 31, 2024, as compared to \$0.2 million in the three months ended August 31, 2023. Sales to all other international markets increased from \$0.2 million in the three months ended August 31, 2023 to \$0.9 million in the three months ended August 31, 2024.

Cost of Goods Sold

Cost of goods sold was \$7.8 million in the fiscal quarter of 2024 compared to \$3.9 million in the prior year period. This increase of \$3.9 million, or 100%, is primarily due to the increase in sales volumes.

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, and inspection costs. Gross profit was \$13.0 million in the third fiscal quarter of 2024, or 62.4% of net revenue, as compared to gross profit of approximately \$3.2 million, or 44.6% of net revenue, in the prior year period. The improvement in gross profit as a percentage of sales is primarily due to the increase in the proportion of high margin direct to customer sales, from 67% of total sales in the prior year period to 77% of sales in the third fiscal quarter of 2024. The improvement was also due to higher absorption of fixed costs by increased production volume and due to reduced reliance on price discounts for sales promotions.

Operating Expenses

Operating expenses were \$12.2 million in the third fiscal quarter of 2024, an increase of \$4.9 million, as compared to the prior year period expenses of \$7.3 million. The increase is due to an increase of \$2.6 million in marketing expenses, an increase of \$1.2 million in variable expenses, which increase in proportion to sales volume, an increase of \$1.2 million in accrued employee compensation costs. These cost increases were offset by a decrease of \$0.9 million in stock compensation expense.

Other Income (Expense)

We recorded \$0.1 million of foreign currency translation loss during the three months ended August 31, 2024 compared to \$0.05 million of foreign currency translation loss during the three months ended August 31, 2023. We recorded \$0.3 million of interest income during the three months ended August 31, 2024 compared to \$0.2 million in the three months ended August 31, 2023. We recorded a loss of \$0.06 million from our South American joint venture investment as compared to a loss of \$0.2 million in the three months ended August 31, 2023.

Income Tax Provision

For the three months ended August 31, 2024 and 2023, we recorded a nominal amount and \$0.1 million of income tax benefit, respectively. For the three months ended August 31, 2024 and 2023, the effective tax rate was 0.1% and 2.8%, respectively. Our 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 current period, and other effects.

Net Income/(Loss)

Net income was \$1.0 million for the three months ended August 31, 2024, an improvement of \$5.1 million compared to the net loss of \$4.1 million for the three months ended August 31, 2023.

Non-GAAP Financial Measures

In addition to providing financial measurements based on generally accepted accounting principles in the United States (GAAP), we provide an additional financial metric that is not prepared in accordance with GAAP (non-GAAP) with presenting non-GAAP adjusted EBITDA. Management uses this non-GAAP financial measure, 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 this non-GAAP financial measure helps 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 measure.

Accordingly, we believe that this non-GAAP financial measure reflects 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.

This non-GAAP financial measure does 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 measure as a tool for comparison.

Adjusted EBITDA

Adjusted EBITDA is defined as net (loss) income as reported in our condensed 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) impairment loss and (vi) one-time, non-recurring other expenses or income. 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 net (loss) income, the most directly comparable GAAP measure, is as follows (in thousands):

| | <u>For the Three Months Ended</u> | |
|---|-----------------------------------|-------------|
| | <u>August 31,</u> | |
| | <u>2024</u> | <u>2023</u> |
| Net income (loss) | \$ 1,025 | \$ (4,094) |
| Adjustments: | | |
| Interest income | (281) | (239) |
| Income tax benefit | (78) | (124) |
| Depreciation and amortization | 263 | 301 |
| Non-GAAP EBITDA | 929 | (4,156) |
| Stock-based compensation expense | 819 | 1,738 |
| Non-cash incentive compensation expense | — | — |
| Forgiveness of PPP loan | — | — |
| Impairment loss | — | — |
| Severance/Officer recruiting | 196 | — |
| Other expenses | — | — |
| Non-GAAP adjusted EBITDA | \$ 1,944 | \$ (2,418) |

Nine months ended August 31, 2024 as compared to nine months ended August 31, 2023:

Net Revenue

Revenues were \$57.8 million in the nine months ended August 31, 2024, an increase of \$30.8 million or 114% as compared to the prior year period revenues of \$27.0 million. Most of the increase in revenue can be attributed to a new marketing strategy, implemented in September of 2023, shifting advertising efforts away from social media platforms and to celebrity endorsers. Direct to customer sales, via Amazon and our website, increased by \$25.9 million, or 140%, from \$18.5 million in the nine months ended August 31, 2023, to \$44.4 million during the nine months ended August 31, 2024. Sales to domestic dealers and retailers increased by 58% to \$9.8 million in the nine months ended August 31, 2024, from \$6.2 million in the nine months ended August 31, 2023. Sales to Canadian customers increased by \$0.4 million or 60% to \$1.1 million during the nine months ended August 31, 2024, as compared to \$0.7 million in the nine months ended August 31, 2023. Sales to all other international markets increased from \$1.6 million in the nine months ended August 31, 2023, to \$2.5 million in the nine months ended August 31, 2024.

Cost of Goods Sold

Cost of goods sold was \$22.6 million in the nine months ended August 31, 2024 compared to \$12.4 million in the prior year period. The increase of \$10.2 million, or 82%, is primarily due to the increase in sales volume.

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, and inspection costs. Gross profit was \$35.2 million during the nine months ended August 31, 2024, or 60.9% of net revenue, as compared to gross profit of approximately \$14.6 million, or 54.1% of net revenue, in the prior year period. The improvement in gross profit as a percentage of sales is primarily due to the increase in the proportion of high margin direct to customer sales, from 66% of total sales in the prior year period to 77% of sales in the nine months ended August 31, 2024. The improvement was also due to higher absorption of fixed costs by increased production volume and due to reduced reliance on price discounts for sales promotions.

Operating Expenses

Operating expenses were \$32.6 million in the nine months ended August 31, 2024, an increase of \$11.1 million, or 52%, as compared to the prior year period expenses of \$21.5 million. The increase is due to an increase of \$6.4 million in marketing expenses, an increase of \$2.8 million in variable expenses, which increase in proportion to sales volume, an increase of \$2.7 million in employee compensation costs. These cost increases were offset by a decrease of \$2.1 million in stock compensation expense.

Other Income (Expense)

We recorded \$0.4 million of foreign currency translation loss during the nine months ended August 31, 2024 compared to \$0.2 million of foreign currency translation loss during the nine months ended August 31, 2023. We recorded \$0.9 million of interest income during the nine months ended August 31, 2024 compared to \$0.5 million in the nine months ended August 31, 2023. We recorded a loss of \$0.04 million from our South American joint venture investment during the nine months ended August 31, 2024, as compared to a loss of \$0.6 million in the nine months ended August 31, 2023.

Income Tax Provision

For the nine months ended August 31, 2024 and 2023, we recorded \$0.1 million of income tax benefit and income tax benefit of \$0.2 million, respectively. For the nine months ended August 31, 2024 and 2023, the effective tax rate was 0.2% and 2.2%, respectively. Our 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 current period, and other effects.

Net Income/(Loss)

Net income was \$3.1 million for the nine months ended August 31, 2024, an improvement of \$10.5 million compared to the net loss of \$7.4 million for the nine months ended August 31, 2023.

Non-GAAP Financial Measures

In addition to providing financial measurements based on generally accepted accounting principles in the United States (GAAP), we provide an additional financial metric that is not prepared in accordance with GAAP (non-GAAP) with presenting non-GAAP adjusted EBITDA. Management uses this non-GAAP financial measure, 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 this non-GAAP financial measure helps 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 measure.

Accordingly, we believe that this non-GAAP financial measure reflects 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.

This non-GAAP financial measure does 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 measure as a tool for comparison.

Adjusted EBITDA

Adjusted EBITDA is defined as net (loss) income as reported in our condensed 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) impairment loss and (vi) one-time, non-recurring other expenses or income. 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 net (loss) income, the most directly comparable GAAP measure, is as follows (in thousands):

| | <u>For the Nine Months Ended</u> | |
|----------------------------------|----------------------------------|-------------------|
| | <u>August 31,</u> | |
| | <u>2024</u> | <u>2023</u> |
| Net income (loss) | \$ 3,120 | \$ (7,363) |
| Adjustments: | | |
| Interest income | (883) | (525) |
| Income tax benefit | (75) | (165) |
| Depreciation and amortization | 1,113 | 921 |
| Non-GAAP EBITDA | <u>3,275</u> | <u>(7,132)</u> |
| Stock-based compensation expense | 2,615 | 4,689 |
| Impairment loss | — | 176 |
| Severance/Separation | 431 | 52 |
| Non-GAAP adjusted EBITDA | <u>\$ 6,321</u> | <u>\$ (2,215)</u> |

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Summary

Cash and cash equivalents as of August 31, 2024 totaled \$20.1 million, a decrease of \$0.4 million from \$20.5 million of cash and cash equivalents as of November 30, 2023.

Operating Activities

Cash provided by operating activities was \$4.5 million for the nine months ended August 31, 2024 compared to cash used in operations of \$3.6 million during the prior year period. Net income was \$3.1 million compared to net loss of \$7.4 million for the nine months ended August 31, 2024 and 2023, respectively. Significant changes in noncash and working capital activity are as follows:

Non-cash activity includes stock-based compensation expenses of \$2.6 million for the nine months ended August 31, 2024 compared to \$4.7 million for the nine months ended August 31, 2023; depreciation and amortization expense of \$1.1 million for the nine months ended August 31, 2024 compared to \$0.9 million for the nine months ended August 31, 2023, and less than a \$0.1 million of joint venture investment loss in the nine months ended August 31, 2024 compared to \$0.6 million during the nine months ended August 31, 2023.

Inventory increased during the nine months ended August 31, 2024 by \$5.9 million compared to an increase of \$2.3 million for the nine months ended August 31, 2023. Accounts receivable decreased by \$0.8 million during the nine months ended August 31, 2024 as compared to a decrease of \$2.0 million for the nine months ended August 31, 2023. Accounts payable and accrued liabilities increased during the nine months ended August 31, 2024 by \$5.0 million compared to a decrease of \$3.0 million for the nine months ended August 31, 2023. Prepaid expenses and other current assets increased by \$1.2 million during the nine months ended August 31, 2024 compared to a decrease of \$0.2 million during the nine months ended August 31, 2023. Operating lease liabilities decreased by \$0.5 million during the nine months ended August 31, 2024 compared to a decrease of \$0.5 million during the nine months ended August 31, 2023. Deferred revenues decreased \$1.1 million during the nine months ended August 31, 2024 compared to a decrease of less than \$0.1 million for the nine months ended August 31, 2023, respectively.

Investing Activities

Cash used in investing activities was \$1.4 million for the nine months ended August 31, 2024 compared to \$2.4 million for the nine months ended August 31, 2023. The prior year period investing activities primarily relates to the investment in the joint venture and the corresponding loan while the current period relates to purchases of property and equipment.

Financing Activities

Cash used in financing activities was \$3.9 million for the nine months ended August 31, 2024 compared to \$0.5 million for the nine months ended August 31, 2023. The current year amount was primarily composed of stock repurchases of \$3.2 million and taxes paid on issuances of restricted stock units of \$0.8 million. The prior year amount was primarily composed of payroll taxes withheld on the vesting of restricted stock units.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or have reasonably likely to have a current or future effect on our 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 unaudited 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

Our unaudited 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 2023 10-K. During the three and nine months ended August 31, 2024, there were no significant changes to our critical accounting policies from those described in our 2023 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 Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of August 31, 2024 pursuant to Rule 13a-15(b) of the Exchange Act. Disclosure controls and procedures are designed to ensure that material information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that material information is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company's CEO and CFO concluded that as of August 31, 2024, our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

There were no changes that occurred during the third quarter of 2024 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 Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended November 30, 2023, filed with the SEC on February 14, 2024, as amended on March 29, 2024. There have been no material changes to the risk factors disclosed in our 2023 Form 10-K.

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

On July 31, 2024, our Board of Directors approved a program to buy back up to \$10 million worth of shares of our Common Stock from the open market during a period of two years (the “Stock Buyback Program”). The Stock Buyback Program is intended to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. We repurchased 291,141 shares of our Common Stock under the Stock Buyback Program during the three months ended August 31, 2024. See Note 14 of our notes to condensed consolidated financial statements for information regarding the Stock Buyback Program.

| | Number of Shares (in thousands) | Average Cost per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands) | Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs |
|-------------|--|-----------------------------------|--|---|
| June 2024 | — | \$ — | — | \$ — |
| July 2024 | — | — | — | — |
| August 2024 | 291 | 10.3 | 291 | 5,700 |
| Total | 291 | \$ 10.3 | 291 | \$ 5,700 |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Insider Adoption or Termination of Trading Arrangements:

During the fiscal quarter ended August 31, 2024 none of our directors or officers informed us of the adoption, modification or termination of a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Regulation S-K, Item 408.

Departure and Appointment of Officers

On July 15, 2024, David North, the Company's previous CFO, retired and Lauri Kearnes was appointed CFO. Mr. North's decision to retire was not caused by any disagreement with the Company, and the Company and Mr. North entered into a consulting agreement pursuant to which Mr. North has provided consulting services to the Company following his retirement.

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 |
|------------------------|---|
| 10.1 | Offer Letter between Byrna Technologies Inc. and Lauri Kearnes, dated June 12, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 24, 2024). |
| 10.2 | Separation Agreement between Byrna Technologies Inc. and David North, dated June 19, 2024 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 24, 2024). |
| 10.3 | Consulting Agreement between Byrna Technologies Inc. and David North, dated June 19, 2024 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 24, 2024). |
| 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.

Byrna Technologies Inc.

Date: October 11, 2024

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

Date: October 11, 2024

/s/ Lauri Kearnes
Name: Lauri Kearnes
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 third fiscal quarter 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 11, 2024

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, Lauri Kearnes, 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 third fiscal quarter 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 11, 2024

By: /s/ Lauri Kearnes

Lauri Kearnes
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Byrna Technologies Inc. (the "Company") for the period ended August 31, 2024, 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, to their knowledge:

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. 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 11, 2024

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

By: /s/ Lauri Kearnes
Lauri Kearnes
Chief Financial Officer
(Principal Financial and Accounting Officer)