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

FORM 10-Q

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

For the quarterly period ended December 31, 2023

OR

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

For the transition period from ________ to ________

AMMO, Inc.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	**001-13101**	**83-1950534**
(State of incorporation)	(Commission File No.)	(I.R.S. Identification Number)

7681 E Gray Road, Scottsdale, AZ 85260
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number including area code: **(480) 947-0001**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	POWW	The Nasdaq Stock Market LLC (Nasdaq Capital Market)
8.75% Series A Cumulative Redeemable Perpetual Preferred Stock, $0.001 par value	POWWP	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 February 7, 2024, there were 118,660,984 shares of $0.001 par value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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PART I

ITEM 1. FINANCIAL STATEMENTS

AMMO, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2023 (Unaudited)	March 31, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 54,679,868	$ 39,134,027
Accounts receivable, net	21,121,450	29,346,380
Inventories	49,502,732	54,344,819
Prepaid expenses	3,708,865	5,126,667
Current portion of restricted cash	-	500,000
Total Current Assets	129,012,915	128,451,893
Equipment, net	57,278,603	55,963,255
Other Assets:		
Deposits	2,265,932	7,028,947
Patents, net	4,662,656	5,032,754
Other intangible assets, net	114,296,627	123,726,810
Goodwill	90,870,094	90,870,094
Right of use assets - operating leases	2,113,943	1,261,634
Deferred income tax asset	115,908	-
TOTAL ASSETS	$ 400,616,678	$ 412,335,387
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 19,146,138	$ 18,079,397
Accrued liabilities	6,570,668	4,353,354
Current portion of operating lease liability	463,059	470,734
Note payable related party	-	180,850
Current portion of construction note payable	265,977	260,429
Insurance premium note payable	173,029	2,118,635
Total Current Liabilities	26,618,871	25,463,399
Long-term Liabilities:		
Contingent consideration payable	80,080	140,378
Construction note payable, net of unamortized issuance costs	10,797,696	10,922,443
Operating lease liability, net of current portion	1,737,615	903,490
Deferred income tax liability	-	2,309,592
Total Liabilities	39,234,262	39,739,302
Shareholders' Equity:		
Series A cumulative perpetual preferred Stock 8.75%, ($25.00 per share, $0.001 par value) 1,400,000 shares issued and outstanding as of December 31, 2023 and March 31, 2023, respectively	1,400	1,400
Common stock, $0.001 par value, 200,000,000 shares authorized 119,994,033 and 118,562,806 shares issued and 118,643,593 and 118,294,478 outstanding at December 31, 2023 and March 31, 2023, respectively	118,644	118,294
Additional paid-in capital	395,449,082	391,940,374
Accumulated deficit	(31,513,554)	(18,941,825)
Treasury Stock	(2,673,156)	(522,158)
Total Shareholders' Equity	361,382,416	372,596,085

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 400,616,678	$ 412,335,387

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended December 31, 2023	For the Three Months Ended December 31, 2022	For the Nine Months Ended December 31, 2023	For the Nine Months Ended December 31, 2022
Net Revenues				
Ammunition sales[1]	$ 17,322,967	$ 20,250,965	$ 46,945,585	$ 90,607,817
Marketplace revenue	13,985,034	15,419,202	40,371,952	46,486,842
Casing sales	4,698,463	3,041,327	17,315,888	10,661,420
	36,006,464	38,711,494	104,633,425	147,756,079
Cost of Revenues	25,096,088	26,184,315	71,410,243	104,257,529
Gross Profit	10,910,376	12,527,179	33,223,182	43,498,550
Operating Expenses				
Selling and marketing	236,565	1,010,543	822,098	3,987,214
Corporate general and administrative	5,803,255	7,835,201	21,606,442	17,920,197
Employee salaries and related expenses	3,390,153	4,705,636	13,096,468	11,414,434
Depreciation and amortization expense	3,401,156	3,309,074	10,117,001	9,950,752
Total operating expenses	12,831,129	16,860,454	45,642,009	43,272,597
Income/(Loss) from Operations	(1,920,753)	(4,333,275)	(12,418,827)	225,953
Other Expenses				
Other income/(loss)	4,576	(170,403)	376,186	28,193
Interest expense	(193,046)	(320,439)	(609,561)	(538,191)
Total other expense, net	(188,470)	(490,842)	(233,375)	(509,998)
Loss before Income Taxes	(2,109,223)	(4,824,117)	(12,652,202)	(284,045)
Provision for Income Taxes	(465,234)	(721,125)	(2,419,883)	1,369,427
Net Loss	(1,643,989)	(4,102,992)	(10,232,319)	(1,653,472)
Preferred Stock Dividend	(782,639)	(782,639)	(2,339,410)	(2,339,409)
Net Loss Attributable to Common Stock Shareholders	$ (2,426,628)	$ (4,885,631)	$ (12,571,729)	$ (3,992,881)
Net Loss per share				
Basic	$ (0.02)	$ (0.04)	$ (0.11)	$ (0.03)
Diluted	$ (0.02)	$ (0.04)	$ (0.11)	$ (0.03)
Weighted average number of shares outstanding				
Basic	118,447,154	117,348,511	118,110,943	116,950,013
Diluted	118,447,154	117,348,511	118,110,943	116,950,013

(1) Included in revenue for the three months ended December 31, 2023 and 2022 are excise taxes of $1,498,429 and $1,669,206, respectively. Included in revenue for the nine months ended December 31, 2023 and 2022 are excise taxes of $3,958,391 and $7,816,598, respectively.

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	Preferred Stock		Common Shares		Additional Paid-In	Accumulated	Treasury	
	Number	Par Value	Number	Par Value	Capital	(Deficit)	Stock	Total
Balance as of March 31, 2023	1,400,000	$ 1,400	118,294,478	$ 118,294	$391,940,374	$ (18,941,825)	$ (522,158)	$372,596,085
Employee stock awards	-	-	390,111	391	822,406	-	-	822,797
Stock grants	-	-	-	-	50,750	-	-	50,750
Preferred stock dividends	-	-	-	-	-	(638,038)	-	(638,038)
Dividends accumulated on preferred stock	-	-	-	-	-	(136,094)	-	(136,094)
Net loss	-	-	-	-	-	(1,093,033)	-	(1,093,033)
Treasury shares purchased	-	-	(738,831)	(739)	-	-	(1,456,005)	(1,456,744)
Balance as of June 30, 2023	1,400,000	1,400	117,945,758	117,946	392,813,530	(20,808,990)	(1,978,163)	370,145,723
Employee stock awards	-	-	712,783	713	1,467,236	-	-	1,467,949
Stock grants	-	-	-	-	50,750	-	-	50,750
Preferred stock dividends declared	-	-	-	-	-	(646,545)	-	(646,545)
Dividends accumulated on preferred stock	-	-	-	-	-	(136,094)	-	(136,094)
Net loss	-	-	-	-	-	(7,495,297)	-	(7,495,297)
Treasury shares purchased	-	-	(197,798)	(198)	-	-	(398,627)	(398,825)
Balance as of September 30, 2023	1,400,000	1,400	118,460,743	118,461	394,331,516	(29,086,926)	(2,376,790)	362,987,661
Employee stock awards	-	-	328,333	328	686,771	-	-	687,099
Stock grants	-	-	-	-	50,750	-	-	50,750
Common stock purchase options	-	-	-	-	380,045	-	-	380,045
Preferred stock dividends	-	-	-	-	-	(638,021)	-	(638,021)
Dividends accumulated on preferred stock	-	-	-	-	-	(144,618)	-	(144,618)
Net loss	-	-	-	-	-	(1,643,989)	-	(1,643,989)
Treasury shares purchased	-	-	(145,483)	(145)	-	-	(296,366)	(296,511)

Balance as of December 31, 2023	1,400,000	$ 1,400	118,643,593	$ 118,644	$395,449,082	$ (31,513,554)	$(2,673,156)	$361,382,416

	Preferred Stock		Common Shares		Additional Paid-In	Accumulated	Treasury	
	Number	**Par Value**	**Number**	**Par Value**	**Capital**	**(Deficit)**	**Stock**	**Total**
Balance as of March 31, 2022	1,400,000	$ 1,400	116,485,747	$ 116,487	$385,426,431	$ (11,240,752)	$ -	$374,303,566
Common stock issued for cashless warrant exercise	-	-	99,762	99	(99)	-	-	-
Employee stock awards	-	-	338,375	338	1,174,725	-	-	1,175,063
Stock grants	-	-	-	-	47,844	-	-	47,844
Preferred stock dividends declared	-	-	-	-	-	(638,071)	-	(638,071)
Dividends accumulated on preferred stock	-	-	-	-	-	(136,061)	-	(136,061)
Net income	-	-	-	-	-	3,253,027	-	3,253,027
Balance as of June 30, 2022	1,400,000	$ 1,400	116,923,884	$ 116,924	$386,648,901	$ (8,761,857)	$ -	$378,005,368
Common stock issued for cashless warrant exercise	-	-	12,121	12	24,230	-	-	24,242
Employee stock awards	-	-	338,750	339	1,176,036	-	-	1,176,375
Stock grants	-	-	-	-	43,750	-	-	43,750
Preferred stock dividends declared	-	-	-	-	-	(646,595)	-	(646,595)
Dividends accumulated on preferred stock	-	-	-	-	-	(136,044)	-	(136,044)
Net income	-	-	-	-	-	(803,507)	-	(803,507)
Balance as of September 30, 2022	1,400,000	$ 1,400	117,274,755	$ 117,275	$387,892,917	$ (10,348,003)	$ -	$377,663,589
Common stock issued for exercised warrants	-	-	165,152	165	31,639	-	-	31,804
Employee stock awards	-	-	604,510	604	2,105,931	-	-	2,106,535
Stock grants	-	-	-	-	43,750	-	-	43,750
Warrants issued for services	-	-			427,639	-	-	427,639
Preferred stock dividend	-	-	-	-	-	(638,304)	-	(638,304)

Dividends accumulated on preferred stock	-	-	-	-	-	(144,334)	-	(144,334)
Net loss	-	-	-	-	-	(4,102,992)	-	(4,102,992)
Treasury shares purchased	-	-	(150,000)	(150)	-	-	(290,861)	(291,011)
Balance as of December 31, 2022	1,400,000	$ 1,400	117,894,417	$ 117,894	$390,501,876	$ (15,233,633)	$(290,861)	$375,096,676

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	For the Nine Months Ended December 31, 2023	For the Nine Months Ended December 31, 2022
Cash flows from operating activities:		
Net Loss	$ (10,232,319)	$ (1,653,472)
Adjustments to reconcile Net Loss to Net Cash provided by operations:		
Depreciation and amortization	14,047,216	12,950,972
Debt discount amortization	62,440	62,440
Employee stock awards	2,977,845	4,457,973
Stock grants	152,250	135,344
Common stock purchase options	380,045	-
Warrants Issued for Services	-	106,909
Contingent consideration payable fair value	(60,298)	(45,572)
Allowance for doubtful accounts	1,117,565	1,327,419
Reduction in right of use asset	362,402	512,063
Deferred income taxes	(2,425,500)	1,283,481
Changes in Current Assets and Liabilities		
Accounts receivable	7,107,365	12,208,054
Due from related parties	-	15,000
Inventories	4,842,087	(8,129,249)
Prepaid expenses	2,474,001	1,941,206
Deposits	4,763,015	1,678,415
Accounts payable	1,066,741	(5,852,397)
Accrued liabilities	2,072,696	(2,044,248)
Operating lease liability	(388,261)	(522,917)
Net cash provided by operating activities	28,319,290	18,431,421
Cash flows from investing activities:		
Purchase of equipment	(5,562,283)	(10,566,182)
Net cash used in investing activities	(5,562,283)	(10,566,182)
Cash flow from financing activities:		
Proceeds from factoring liability	37,252,869	57,300,000
Payments on factoring liability	(37,252,869)	(56,107,221)
Payments on inventory facility, net	-	(825,675)
Payments on note payable - related party	(180,850)	(507,508)
Payments on insurance premium note payment	(3,001,805)	(1,916,070)
Proceeds from construction note payable	-	1,000,000
Payments on construction note payable	(181,639)	(66,586)
Preferred stock dividends paid	(2,194,792)	(2,195,075)
Common stock repurchase plan	(2,152,080)	(291,011)
Common stock issued for exercised warrants	-	56,046
Net cash used in financing activities	(7,711,166)	(3,553,100)
Net increase in cash	15,045,841	4,312,139
Restricted cash, beginning of period	500,000	-
Cash, beginning of period	39,134,027	23,281,475
Cash and restricted cash, end of period	$ 54,679,868	$ 27,593,614
Restricted cash, end of period	$ -	$ 500,000
Cash, end of period	$ 54,679,868	$ 27,093,614

(Continued)

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	For the Nine Months Ended December 31,	
	2023	**2022**
Supplemental cash flow disclosures:		
Cash paid during the period for:		
Interest	$ 548,118	$ 433,761
Income taxes	$ -	$ 1,302,811
Non-cash investing and financing activities:		
Operating lease liability	$ 1,214,711	$ 901,076
Insurance premium note payment	$ 1,056,199	$ 2,035,519
Dividends accumulated on preferred stock	$ 144,618	$ 144,334
Construction note payable	$ -	$ 10,237,032
Warrants issued for services	$ -	$ 427,639

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
(Unaudited)

NOTE 1 – ORGANIZATION AND BUSINESS ACTIVITY

We were formed under the name Retrospettiva, Inc. in November 1990 to manufacture and import textile products, including both finished garments and fabrics. We were inactive until the following series of events in December 2016 and March 2017.

On December 15, 2016, the Company's majority shareholders sold their common stock to Mr. Fred W. Wagenhals ("Mr. Wagenhals") resulting in a change in control of the Company. Mr. Wagenhals was appointed as sole officer and the sole member of the Company's Board of Directors.

The Company also approved (i) doing business in the name AMMO, Inc., (ii) a change to the Company's OTC trading symbol to POWW, (iii) an agreement and plan of merger to re-domicile and change the Company's state of incorporation from California to Delaware, and (iv) a 1-for-25 reverse stock split of the issued and outstanding shares of the common stock of the Company. These transactions were effective as of December 30, 2016.

On March 17, 2017, the Company entered into a definitive agreement with AMMO, Inc. a Delaware Corporation ("PRIVCO") under which the Company acquired all of the outstanding shares of common stock of PRIVCO. PRIVCO subsequently changes its name to AMMO Munitions, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

The accompanying unaudited condensed consolidated financial statements and related disclosures included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and reflect all adjustments, which consist solely of normal recurring adjustments, needed to fairly present the financial results for these periods. Additionally, these condensed consolidated financial statements and related disclosures are presented pursuant to the rules and regulations of the Securities Exchange Commission ("SEC").

The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures contained in the Company's Annual Report filed with the SEC on Form 10-K for the year ended March 31, 2023. The results for the three and nine month period ended December 31, 2023 are not necessarily indicative of the results that may be expected for the entire fiscal year. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to the rules and regulations of the SEC. In the opinion of management, all adjustments have been made, which consist only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and nine month periods ended December, 2023 and 2022, (b) the financial position at December 31, 2023, and (c) cash flows for the nine month periods ended December 31, 2023 and 2022.

We use the accrual basis of accounting and U.S. GAAP and all amounts are expressed in U.S. dollars. The Company has a fiscal year-end of March 31st.

Unless the context otherwise requires, all references to "Ammo", "we", "us", "our," or the "Company" are to AMMO, Inc., a Delaware corporation, and its consolidated subsidiaries.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of AMMO, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the condensed consolidated financial statements include the valuation of allowances for credit losses, valuation of deferred tax assets, inventories, useful lives of assets, goodwill, intangible assets, stock-based compensation and warrant-based compensation.

Critical Accounting Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended March 31, 2023, under "Management's Discussion and Analysis of Financial Condition and Results of Operations." We adopted ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326) and ASU 2022-03, "Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions" in the current period. These policy changes did not result in a material effect on the Company's financial statements. There have been no other significant changes to these policies during the three and nine months ended December 31, 2023. For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2023.

Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting unit. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions. Due to the declines in the value of our stock price and market capitalization in the year ended March 31, 2023, we assessed qualitative factors to determine if it is more likely than not that the fair value of the Marketplace segment is less than its carrying amount. Through our analysis we determined our stock price and market capitalization decline is not indicative of a decrease in the fair value of our Marketplace segment and a fair value calculation using the discounted cash flows was more appropriate due to the operational performance of the reporting segment. Accordingly, the impairment of Goodwill was not warranted for the three and nine months ended December 31, 2023. As of December 31, 2023, the Company has a goodwill carrying value of $90,870,094, all of which is assigned to the Marketplace segment. However, should there continue to be a decline in the Company's market capitalization, it is possible that the book values of our Marketplace segment could exceed its fair value, which may result in the recognition of a material, noncash impairment of goodwill for the year ending March 31, 2024.

Accounts Receivable and Allowance for Doubtful Accounts

Our accounts receivable represents amounts due from customers for products sold and include an allowance for estimated credit losses which is estimated based on the collectability and age of the accounts receivable balances and categorization of customers with similar financial condition. At December 31, 2023 and March 31, 2023, we reserved $4,387,581 and $3,246,551, respectively, of allowance for doubtful accounts.

Restricted Cash

We consider cash to be restricted when withdrawal or general use is legally restricted. Our restricted cash balance is comprised of cash on deposit with banks to secure the Construction Note Payable as discussed in Note 11. We report restricted cash in the Consolidated Balance Sheets as current or non-current classification based on the expected duration of the restriction.

License Agreements

We are a party to a license agreement with Jesse James, a well-known motorcycle designer, and Jesse James Firearms, LLC, a Texas limited liability company. The license agreement grants us the exclusive worldwide rights through April 12, 2026 to Mr. James' image rights and trademarks associated with him in connection with the marketing, promotion, advertising, sale, and commercial exploitation of Jesse James Branded Products. We agreed to pay Mr. James royalty fees on the sale of ammunition and non-ammunition Branded Products and to reimburse him for any out-of-pocket expenses and reasonable travel expenses.

Patents

On September 28, 2017, AMMO Technologies Inc. ("ATI"), an Arizona corporation, which is 100% owned by us, merged with Hallam, Inc, a Texas corporation, with ATI being the survivor. The primary asset of Hallam, Inc. was an exclusive license to produce projectiles and ammunition using the Hybrid Luminescence Ammunition Technology under patent U.S. 8,402,896 B1 with a publication date of March 26, 2013 owned by the University of Louisiana at Lafayette. The license was formally amended and assigned to AMMO Technologies Inc. pursuant to an Assignment and First Amendment to Exclusive License Agreement. Assumption Agreement dated to be effective as of August 22, 2017, the Merger closing date. This asset will be amortized from September 2017, the first full month of the acquired rights, through October 29, 2028.

Under the terms of the Exclusive License Agreement, the Company is obligated to pay a quarterly royalty to the patent holder, based on a $0.01 per unit basis for each round of ammunition sold that incorporates this patented technology through October 29, 2028. For the three months ended December 31, 2023 and 2022, the Company recognized royalty expenses of $2,714 and $8,794, respectively under this agreement. For the nine months ended December 31, 2023 and 2022, the Company recognized royalty expenses of $10,384 and $89,340, respectively under this agreement.

On October 5, 2018, we completed the acquisition of SW Kenetics Inc. ATI succeeded all of the assets of SW Kenetics, Inc. and assumed all of the liabilities.

The primary asset of SW Kenetics Inc. was a pending patent for modular projectiles. All rights to patent pending application were assigned and transferred to AMMO Technologies, Inc. pursuant to Intellectual Property Rights Agreement on September 27, 2018.

We intend to continue building our patent portfolio to protect our proprietary technologies and processes, and will file new applications where appropriate to preserve our rights to manufacture and sell our branded lines of ammunition.

Other Intangible Assets

On March 15, 2019, Enlight Group II, LLC d/b/a Jagemann Munition Components, a wholly owned subsidiary of AMMO, Inc., completed its acquisition of assets of Jagemann Stamping Company's ammunition casing manufacturing and sales operations pursuant to the terms of the Amended and Restated Asset Purchase Agreement. The intangible assets acquired include a tradename, customer relationships, and intellectual property.

On April 30, 2021, we entered into an agreement and plan of merger (the "Merger Agreement"), by and among the Company, SpeedLight Group I, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company and Gemini Direct Investments, LLC, a Nevada limited liability company. Whereby SpeedLight Group I, LLC merged with and into Gemini Direct Investments, LLC, with SpeedLight Group I, LLC surviving the merger as a wholly owned subsidiary of the Company. At the time of the Merger, Gemini Direct Investments, LLC had nine (9) subsidiaries, all of which are related to Gemini's ownership of Gunbroker.com, an online auction marketplace dedicated to firearms, hunting, shooting, and related products. The intangible assets acquired include a tradename, customer relationships, intellectual property, software and domain names.

Impairment of Long-Lived Assets

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. No impairment expense was recognized for the three and nine months ended December 31, 2023 and 2022.

Revenue Recognition

We generate revenue from the production and sale of ammunition, ammunition casings, and marketplace fee revenue, which includes auction revenue, payment processing revenue, and shipping income. We recognize revenue according to Accounting Standard Codification – Revenue from Contract with Customers ("ASC 606"). When the customer obtains control over the promised goods or services, we record revenue in the amount of consideration that we can expect to receive in exchange for those goods and services. We apply the following five-step model to determine revenue recognition:

- Identification of a contract with a customer
- Identification of the performance obligations in the contact
- Determination of the transaction price
- Allocation of the transaction price to the separate performance allocation
- Recognition of revenue when performance obligations are satisfied

We only apply the five-step model when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services transferred to the customer. At contract inception and once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations, and assess whether each promised good or service is distinct.

For Ammunition Sales and Casing Sales, our contracts contain a single performance obligation and the entire transaction price is allocated to the single performance obligation. We recognize as revenues the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is satisfied or as it is satisfied. Accordingly, we recognize revenues (net) when the customer obtains control of our product, which typically occurs upon shipment of the product or the performance of the service. In the year ended March 31, 2021, we began accepting contract liabilities or deferred revenue. We included Deferred Revenue in our Accrued Liabilities. We will recognize revenue when the performance obligation is met.

For Marketplace revenue, the performance obligation is satisfied, and revenue is recognized as follows:

Auction revenue consists of optional listing fees with variable pricing components based on customer options selected from the GunBroker website and final value fees based on a percentage of the final selling price of the listed item. The performance obligation is to process the transactions as initiated by the customer. Revenue is recognized at a point in time when the transaction is processed.

Payment processing revenue consists of fees charged to customers on a transactional basis. The performance obligation is to process the transactions as initiated by the customer. The price is set by the GunBroker user agreement on the website based on stand-alone selling prices. Revenue is recognized at a point in time when the transaction is processed.

Shipping income consists of fees charged to customers for shipping of sold items listed on the GunBroker website. The performance obligation is to ship the item sold as initiated by the customer. The price is set based on the third-party service provider selected to be used by the customer as well as the speed and location of shipment. Revenue is recognized at a point in time when the shipping label is printed.

Banner Advertising Campaign Revenue consists of fees charged to customers for advertisement placement and impressions generated through the GunBroker website. The performance obligation is to generate the number of impressions specified by the customer on banner advertisements on the GunBroker website using the placement selected by the customer. The price is set by the GunBroker user agreement on the website based on standalone selling prices, or by advertising insertion order as negotiated by media broker. If the number of impressions promised is not generated, the customer receives a refund and the refund is applied to the transaction price. Banner advertising campaigns generally run for one month, and revenue is recognized at a point in time at the end of the selected month.

Product Sales consists of fees charged for the liquidation of excess inventory for partner distributors. The performance obligation is to sell and ship the inventory item as initiated by the customer. The price depends on whether the inventory is a fixed price item or an auction item. For a fixed price item, the Company performs research to determine the current market rate for such an item, and the item is listed at that price. For an auction item, the price is set by what the buyer is willing to pay. The Company acts as a principal in these transactions due to the extent of control they have over the product prior to the sale. Due to the principal determination, gross revenue is recognized at a point in time when the item has been shipped.

Identity Verification consists of fees charged to customers for identity verification in order to gain access to the GunBroker website. The performance obligation is to process the identity verification as initiated by the customer. The price is set by the GunBroker user agreement on the website based on a stand-alone selling price. Revenue is recognized at a point in time when the identity verification is completed.

For the three and nine months ended December 31, 2023, the Company did not have any customers that comprised more than ten percent (10%) of total revenues or accounts receivable.

Disaggregated Revenue Information

The following table represents a disaggregation of revenue from customers by category. We attribute net sales to categories by product or services types; ammunition, ammunition casings, and marketplace fees. We note that revenue recognition processes are consistent between product and service type, however, the amount, timing and uncertainty of revenue and cash flows may vary by each product type due to the customers of each product and service type.

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Ammunition sales(1)	$ 17,322,967	$ 20,250,965	$ 46,945,585	$ 90,607,817
Marketplace fee revenue	13,985,034	15,419,202	40,371,952	46,486,842
Ammunition casings sales	4,698,463	3,041,327	17,315,888	10,661,420
Total Sales	$ 36,006,464	$ 38,711,494	$ 104,633,425	$ 147,756,079

(1) Included in revenue for the three months ended December 31, 2023 and 2022 are excise taxes of $1,498,429 and $1,669,206, respectively. Included in revenue for the nine months ended December 31, 2023 and 2022 are excise taxes of $3,958,391 and $7,816,598, respectively.

Ammunition products are sold through “Big Box” retailers, manufacturers, local ammunition stores, and shooting range operators. We also sell directly to customers online. In contrast, our ammunition casings products are sold to manufacturers. Marketplace fees are generated through our GunBroker.com online auction marketplace.

Advertising Costs

We expense advertising costs as they are incurred in selling and marketing expenses of operating expenses. Marketplace advertising costs are expensed as they are incurred in cost of revenues. We incurred advertising expenses of $297,166 and $240,449, of which $75,655 and $217,422 related to our ammunition segment, for the three months ended December 31, 2023 and 2022, respectively, and recognized in selling and marketing expenses and $221,511 and $23,027 of marketplace advertising expenses recognized in cost of revenues for the three months ended December 31, 2023 and 2022, respectively. We incurred advertising expenses of $850,001 and $1,156,205, of which $289,319 and $912,959 related to our ammunitions segment, for the nine months ended December 31, 2023 and 2022, respectively, and recognized in selling and marketing expenses and $560,682 and $243,246 of marketplace advertising expenses recognized in cost of revenues for the nine months ended December 31, 2023 and 2022, respectively.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to us as of December 31, 2023. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash, accounts receivable, accounts payable, amounts due to related parties, and the construction note payable. Fair values were assumed to approximate carrying values because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

Inventories

We state inventories at the lower of cost or net realizable value. We determine cost using the average cost method. Our inventory consists of raw materials, work in progress, and finished goods. Cost of inventory includes cost of parts, labor, quality control, and all other costs incurred to bring our inventories to condition ready to be sold. We periodically evaluate and adjust inventories for obsolescence.

Property and Equipment

We state property and equipment at cost, less accumulated depreciation. We capitalize major renewals and improvements, while we charge minor replacements, maintenance, and repairs to current operations. We compute depreciation by applying the straight-line method over estimated useful lives, which are generally 5 to 10 years for equipment and 40 years for our building.

Compensated Absences

We accrue a liability for compensated absences in accordance with Accounting Standards Codification 710 – Compensation – General ("ASC 710").

Research and Development

To date, we have expensed all costs associated with developing our product specifications, manufacturing procedures, and products through our cost of products sold, as this work was done by the same employees who produced the finished product. We anticipate that it may become necessary to reclassify research and development costs into our operating expenditures for reporting purposes as we begin to develop new technologies and lines of ammunition.

Stock-Based Compensation

We account for stock-based compensation at fair value in accordance with Accounting Standards Codification 718 – Compensation – Stock Compensation ("ASC 718"), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors. On April 1, 2023 we adopted ASU 2022-03, "Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions." Accordingly, stock based compensation is valued using market value of our Common Stock. Stock-based compensation is recognized on a straight line basis over the vesting periods and forfeitures are recognized in the periods they occur. We account for common stock purchase option awards by estimating the fair value of each option award on the grant date using the Black-Scholes option pricing model that uses assumption and estimates that we believe are reasonable. There were 328,333 and 1,431,227 shares of common stock issued to employees, members of the Board of Directors, and members of our advisory committee for services during the three and nine months ended December 31, 2023, respectively. There were 604,510 and 1,281,635 shares of common stock issued to employees, members of the Board of Directors, and members of our advisory committee for services during the three and nine months ended December 31, 2022, respectively.

Concentrations of Credit Risk

Accounts at banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. As of December 31, 2023, our bank account balances exceeded federally insured limits.

Income Taxes

We file federal and state income tax returns in accordance with the applicable rules of each jurisdiction. We account for income taxes under the asset and liability method in accordance with Accounting Standards Codification 740 – Income Taxes ("ASC 740"). The provision for income taxes includes federal, state, and local income taxes currently payable, and deferred taxes. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable amounts in years in which those temporary differences are expected to be recovered or settled. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. In accordance with ASC 740, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. We measure recognized income tax positions at the largest amount that is greater than 50% likely of being realized. We reflect changes in recognition or measurement in the period in which the change in judgment occurs.

Excise Tax

As a result of regulations imposed by the Federal Government for sales of ammunition to non-government U.S. entities, we charge and collect an 11% excise tax for all products sold into these channels. During the three and nine months ended December 31, 2023, we recognized approximately $1.5 million and $4.0 million, respectively, in excise taxes. During the three and nine months ended

December 31, 2022, we recognized approximately $1.7 million and $7.8 million, respectively, in excise taxes. For ease in selling to commercial markets, excise tax is included in our unit price for the products sold. We record this through net sales and expense the offsetting tax expense to cost of goods sold.

Contingencies

Certain conditions may exist as of the date the consolidated financial statements are issued that may result in a loss to us but will only be resolved when one or more future events occur or fail to occur. We assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, we evaluate the perceived merits of any legal proceedings or unasserted claims and the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability is reasonably estimated, the estimated liability would be accrued in our condensed consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of range of possible loss if determinable and material, would be disclosed.

AMMO was involved in three contract arbitration cases with adverse former employees, one of which is still active. The first one involved an employee terminated for cause who is seeking contract wages and stock that was earned but clawed back upon his termination. In that case, the Company received a favorable ruling on a partial motion for summary judgment wherein the arbitrator ruled the employee had refused to return funds he received as reimbursement for invoices he never paid. The arbitrator, thus, granted the Company's partially dispositive motion. The remaining claims went to an arbitration hearing in late September 2023. No decision has yet been rendered.

The second case involved an employee who was terminated without cause wherein the former employee is seeking contract wages, commissions and allegedly earned common stock. The Company also received notice in October 2022 that an OSHA whistleblower complaint had been filed with the US Department of Labor by that same employee that had been terminated for cause. The regulatory filing was received after AMMO refused to capitulate to the former employee's demands. AMMO has produced documents and submitted its position statement to OSHA and the matter is currently pending at the agency level. AMMO uncovered additional information through work with counsel and investigators and a supplemental response was provided to OHSA on or about July 10, 2023. The Company and the employee agreed to arbitrate the case. The parties reached a resolution of all outstanding claims in November 2023 and all claims have been dismissed.

The third case involved an employee who was terminated without cause wherein the former employee is seeking contract wages and commissions. The Company and the employee agreed to arbitrate the case in August 2023. The parties reached a resolution of all outstanding claims in January 2024 and all claims have been dismissed.

On April 30, 2023, Director and Stockholder Steve Urvan filed suit in the Delaware Court of Chancery against the Company, certain Directors, former directors, employees, former employees and consultants. Urvan's complaint alleges fraudulent misrepresentation in connection with the Company's acquisition of GunBroker.com and certain affiliated companies. Urvan seeks relief in the form of a Court order for partial rescission of the Merger and compensatory damages. The Company and the individual defendants believe that the claims are without merit and have moved to dismiss Urvan's complaint. The Company has also filed a separate lawsuit against Urvan in the Delaware Court of Chancery alleging, among other things, that Urvan committed fraud in connection with the GunBroker.com sale and that Urvan breached his indemnification obligations to AMMO after the sale. On September 11, 2023, the Court of Chancery consolidated the Company's lawsuit against Urvan with Urvan's lawsuit against the Company and the individual defendants. On September 18, 2023, AMMO filed an amended complaint that added a new fraudulent inducement claim and a claim for violation of the Arizona Securities Act. Urvan has moved to dismiss AMMO's affirmative claims. The Court of Chancery held a hearing on both motions to dismiss in the consolidated action on December 18, 2023. The parties are currently awaiting a ruling.

The Company received an assessment from the Alcohol and Tobacco Tax and Trade Bureau ("TTB") for penalties related to excise tax filings in prior fiscal years. A request for abatement was submitted on May 22, 2023, which was subsequently denied by the TTB. The Company participated in an appeals conference in October of 2023 and is currently awaiting a determination.

On December 6, 2023, Director and Stockholder Steve Urvan filed suit in the Delaware Court of Chancery against the Company alleging the Company wrongfully refused to provide him access to certain categories of documents. The Company has asserted as an affirmative defense that Mr. Urvan's primary purpose is to obtain documents to support his claims in the Delaware

Plenary Litigation filed April 30, 2023, in which discovery is currently stayed. The parties are currently completing document discovery. A one-day trial is scheduled at the end of February 2024.

We have accrued for contingencies totaling approximately $0.2 million and $1.3 million for the three and nine months ended December 31, 2023, respectively. There were no other known contingencies at December 31, 2023.

NOTE 3 – INCOME/(LOSS) PER COMMON SHARE

We calculate basic income/(loss) per share using the weighted-average number of shares of common stock outstanding during each reporting period. Diluted income/(loss) per share includes potentially dilutive securities, such as outstanding options and warrants. We use the treasury stock method, in the determination of dilutive shares outstanding during each reporting period. We have issued warrants to purchase 2,256,296 shares of common stock. Due to the net loss attributable to common shareholders for the three and nine months ended December 31, 2023, potentially dilutive securities, which consists of 152,048 and 65,459 of respective warrants, 44,303 and 39,890 of respective equity incentive awards, and 150,000 of respective common stock purchase options were excluded, as a result of the treasury stock method, from the dilutive EPS calculation as the effect would be antidilutive. Due to the net loss attributable to common shareholders for the three and nine months ended December 31, 2022, potentially dilutive securities, which consists of 389,544 and 1,070,694 (536,311 and 150,000 warrants, respectively, for the three and nine months ended December 31, 2022 were excluded as a result of the treasury stock method) common stock purchase warrants and 5,281 and 19,095 equity incentive awards, respectively for the three and nine months ended December 31, 2022, have been excluded from the dilutive EPS calculation as the effect would be antidilutive.

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2023	2022	2023	2022
Numerator:				
Net loss	$ (1,643,989)	$ (4,102,992)	$ (10,232,319)	$ (1,653,472)
Less: Preferred stock dividends	(782,639)	(782,639)	(2,339,410)	(2,339,409)
Net loss attributable to common stockholders	$ (2,426,628)	$ (4,885,631)	$ (12,571,729)	$ (3,992,881)
Denominator:				
Weighted average shares of common stock – Basic	118,447,154	117,348,511	118,110,943	116,950,013
Effect of dilutive common stock purchase warrants	-	-	-	-
Effect of dilutive equity incentive awards	-	-	-	-
Effect of dilutive common stock purchase options	-	-	-	-
	118,447,154	117,348,511	118,110,943	116,950,013
Earnings per share:				
Loss per share attributable to common stockholders – basic	$ (0.02)	$ (0.04)	$ (0.11)	$ (0.03)
Loss per share attributable to common stockholders – diluted	$ (0.02)	$ (0.04)	$ (0.11)	$ (0.03)

NOTE 4 – INVENTORIES

At December 31, 2023 and March 31, 2023, the inventory balances are composed of:

	December, 2023	March 31, 2023
Finished product	$ 15,710,247	$ 14,362,514
Raw materials	22,760,289	23,898,596
Work in process	11,032,196	16,083,709
	$ 49,502,732	$ 54,344,819

NOTE 5 – PROPERTY AND EQUIPMENT

We state equipment at historical cost less accumulated depreciation. We compute depreciation using the straight-line method at rates intended to depreciate the cost of assets over their estimated useful lives, which are generally 5 to 10 years for equipment and 40 years for our building. Upon retirement or sale of property and equipment, we remove the cost of the disposed assets and related accumulated depreciation from the accounts and any resulting gain or loss is credited or charged to other expense. We charge expenditures for normal repairs and maintenance to expense as incurred.

We capitalize additions and expenditures for improving or rebuilding existing assets that extend the useful life. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the shorter of their economic lives or the lease term including any renewals that are reasonably assured.

Property and Equipment consisted of the following at December 31, 2023 and March 31, 2023:

	December 31, 2023	March 31, 2023
Leasehold Improvements	$ 257,009	$ 257,009
Building	29,067,369	28,623,329
Furniture and Fixtures	413,746	384,650
Vehicles	153,254	153,254
Equipment	44,104,409	40,233,186
Tooling	143,710	143,710
Construction in Progress	1,952,152	734,781
Total property and equipment	$ 76,091,649	$ 70,529,919
Less accumulated depreciation	(18,813,046)	(14,566,664)
Net property and equipment	$ 57,278,603	$ 55,963,255

Depreciation Expense for the three and nine months ended December 31, 2023 totaled $1,486,889, and $4,246,935, respectively. For three and nine months ended December 31, 2023 depreciation expense included in Cost of Revenues totaled $1,229,128 and $3,560,117, respectively and $257,761 and $686,818 of depreciation expense was included in Operating Expenses for three and nine months ended December 31, 2023. Depreciation Expense for the three and nine months ended December 31, 2022 totaled $1,089,243, and $3,150,691, respectively. For three and nine months ended December 31, 2022 depreciation expense included in Cost of Revenues totaled $923,564 and $2,630,122, respectively and $165,679 and $520,569 of depreciation expense was included in Operating Expenses for three and nine months ended December 31, 2022.

NOTE 6 – FACTORING LIABILITY

On July 1, 2019, we entered into a Factoring and Security Agreement with Factors Southwest, LLC ("FSW"). FSW may purchase from time to time the Company's Accounts Receivables with recourse on an account by account basis. The twenty-four month agreement contains a maximum advance amount of $5,000,000 on 85% of eligible accounts and has an annualized interest rate of the Prime Rate published from time to time by the Wall Street Journal plus 4.5%. The agreement contains a fee of 3% ($150,000) of the Maximum Facility assessed to the Company. Our obligations under this agreement are secured by present and future accounts receivables and related assets, inventory, and equipment. The Company has the right to terminate the agreement, with 30 days written notice, upon obtaining a non-factoring credit facility. This agreement provides the Company with the ability to convert our account receivables into cash. We did not have an outstanding balance on our Factoring liability as of December 31, 2023. For the three and nine months ended December 31, 2023, interest expense recognized on the Factoring Liability was $81,952 and $185,319, respectively, including $62,500 of amortization of the commitment fee. For the three and nine months ended December 31, 2022, interest expense recognized on the Factoring Liability was $42,286 and $111,220 including $37,500 of amortization of the commitment fee.

On June 17, 2023, per the terms of this agreement, the maturity date was extended to June 17, 2025.

On November 29, 2023, we provided FSW notice of termination of the agreement. The agreement terminated on December 29, 2023. We recognized an expense of $281,108 in relation to the termination of the agreement with FSW.

NOTE 7 – INVENTORY CREDIT FACILITY

On June 17, 2020, we entered into a Revolving Inventory Loan and Security Agreement with FSW. FSW will establish a revolving credit line, and make loans from time to time to the Company for the purpose of providing capital. The twenty-four month agreement secured by our inventory, among other assets, contains a maximum loan amount of $1,750,000 on eligible inventory and has an annualized interest rate of the greater of the three-month LIBOR rate plus 3.09% or 8%. The agreement contains a fee of 2% of the maximum loan amount ($35,000) assessed to the Company. On July 31, 2020, the Company amended its Revolving Loan and Security Agreement to increase the maximum inventory loan amount to $2,250,000. As of December 31, 2023, there was no outstanding balance of the Inventory Credit Facility. There was no interest expense for the three and nine months ended December 31, 2023. Interest expense recognized on the Inventory Credit Facility was $6,580 and $24,256 for the three and nine months ended December 31, 2022, respectively.

On November 29, 2023, we provided FSW notice of termination of the agreement. The agreement terminated on December 29, 2023.

NOTE 8 – REVOLVING LOAN

On December 29, 2023, we entered into a Loan and Security Agreement (the "Sunflower Agreement") by and among the Company and other borrowers party to the Agreement (collectively, the "Borrower"), the lenders party thereto (collectively, the "Lenders") and Sunflower Bank, N.A., as administrative agent and collateral agent (the "Agent"). Capitalized terms used but not otherwise defined herein have the same definitions given to such terms in the Sunflower Agreement under the terms of the Sunflower Agreement, the Lenders have provided to the Borrower a revolving loan in the principal amount of the lesser of (a) $20,000,000 (the "Total Commitment Amount") and (b) the Borrowing Base (a formula based on certain amounts owed to Borrower for goods sold or services provided and eligible inventory (the "Revolving Loan"). The proceeds of loans under the Sunflower Agreement may be used for working capital, general corporate purposes, Permitted Acquisitions, to pay fees and expenses incurred in connection with the Revolving Line, to facilitate Borrower's stock repurchase program and to fund Borrower's general business requirements.

The Revolving Loan bears interest at a rate of the greater of (x) 3.50% (the "Floor Rate") and (y) Term SOFR, plus 3.00% (the "Revolving Facility Applicable Rate") and is computed on the basis of a 360-day year for the actual number of days elapsed. Except in an Event of Default (as defined below), Advances under the Revolving Loan shall bear interest, on the outstanding Daily Balance thereof, at the Revolving Facility Applicable Rate. Interest is due and payable on the first calendar day of each month during the term of the Sunflower Agreement. The Borrower is also obligated to pay to Agent, for the ratable benefit of Lenders, an origination fee, Prepayment Fee, unused facility fee, collateral monitoring fee and Lender Expenses.

The Borrower may borrow, repay and reborrow under the Revolving Loan until December 29, 2026 (the "Maturity Date"), at which time the commitments will terminate and all outstanding loans, together with all accrued and unpaid interest, must be repaid. If the Revolving Loan is refinanced by another lender prior to the Maturity Date, an additional fee payable concurrently with such refinancing in an amount equal to (i) three percent (3.0%) of the Total Commitment Amount, if such financing occurs after the Closing Date but on or prior to the first anniversary of the Closing Date, (ii) two percent (2.0%) of the Total Commitment Amount, if such refinancing occurs after the first anniversary of the Closing Date but on or prior to the second anniversary of the Closing Date, and (iii) one percent (1.0%) of the Total Commitment Amount, if such refinancing occurs after the second anniversary of the Closing Date but on or prior to the third anniversary of the Closing Date (the "Prepayment Fee").

The Sunflower Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Borrower's and the Borrower' subsidiaries' ability to, among other things, incur subsidiary indebtedness, grant liens, merge or consolidate, dispose of substantially all assets of the Borrower and its subsidiaries, taken as a whole, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, and enter into restrictive agreements, in each case subject to customary exceptions.

The Sunflower Agreement includes customary events of default (each, an "Event of Default") that include, among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, insolvency defaults, material judgment defaults, attachment defaults, subordinated debt default, guaranty defaults, and governmental approval defaults. Upon an Event of Default, all Obligations under the Sunflower Agreement shall bear interest at a rate equal to three (3.0) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

We did not have an outstanding balance on our Revolving Loan as of December 31, 2023.

NOTE 9 – LEASES

We lease office, manufacturing, and warehouse space in Scottsdale, AZ, Atlanta and Marietta, GA, and Manitowoc, WI under contracts we classify as operating leases. None of our leases are financing leases. During the nine months ended December 31, 2023, we extended the term of our Scottsdale lease for five years and increased our Right of Use Assets and Operating Lease Liabilities by $1,252,896 and we terminated our Marietta lease resulting in a $35,919 decrease to our Right of Use Assets and a $38,185 decrease to our Operating Lease Liabilities. We terminated our lease agreement in our first Manitowoc, WI location during the year ended March 31, 2023. Accordingly, we decreased our Right of Use Assets and Operating Lease Liabilities by $901,076.

As of December 31, 2023 and March 31, 2023, total Right of Use Assets were $2,113,943 and $1,261,634, respectively. As of December 31, 2023 and March 31, 2023, total Operating Lease Liabilities were $2,200,674 and $1,374,224, respectively. The current portion of our Operating Lease Liability on December 31, 2023 and March 31, 2023 is $463,059 and $470,734, respectively, and is reported as a current liability. The remaining $1,737,615 of the total $2,200,674 as of December 31, 2023 and the $903,490 of the total $1,374,224 as of March 31, 2023 of the Operating Lease Liability is presented as a long-term liability net of the current portion.

Consolidated lease expense for the nine months ended December 31, 2023 was $502,889 including $477,065 of operating lease expense and $25,824 of other lease associated expenses such as association dues, taxes, utilities, and other month to month rentals.

The weighted average remaining lease term and weighted average discount rate for operating leases were 4.2 years and 10.0%, respectively.

Future minimum lease payments under non-cancellable leases as of December 31, 2023 are as follows:

Years Ended March 31,		
2024 (1)	$	165,040
2025		666,233
2026		665,069
2027		581,574
2028		379,067
Thereafter		258,102
		2,715,085
Less: Amount Representing Interest		(514,411)
	$	2,200,674

(1) This amount represents future lease payments for the remaining three months of fiscal year 2024. It does not include any lease payments for the nine months ended December 31, 2023.

NOTE 10 – NOTES PAYABLE – RELATED PARTY

For the nine months ended December 31, 2023, the Company made $180,850 in principal payments, respectively, in connection with the Amended Note B, an amended related party note payable with Jagemann Stamping Company ("JSC"). We entered into the Amended Note B with JSC on November 4, 2020 and the note matured on June 26, 2023. We recognized $1,788 in interest expense for the three and nine months ended December 31, 2023 and $12,753 and $41,450 in respective interest expenses for the three and nine months ended December 31, 2022, respectively.

NOTE 11 – CONSTRUCTION NOTE PAYABLE

On October 14, 2021, we entered into a Construction Loan Agreement (the "Loan Agreement") with Hiawatha National Bank ("Hiawatha"). The Loan Agreement specified that Hiawatha may lend up to $11,625,000 to the Borrower to pay a portion of the construction costs of an approximately 160,000 square foot manufacturing facility to be constructed on our property (the "Loan"). Hiawatha advanced Loan funds from October 2021 to October 2022 totaling $11,625,000. The Loan is an advancing term loan and not a revolving loan so any portion of the principal repaid cannot be reborrowed.

Additionally, on October 14, 2021, we issued a Promissory Note in favor of Hiawatha (the "Note") in the amount of up to $11,625,000 with an interest rate of four and one-half percent (4.5%). The maturity date of the Note is October 14, 2026.

As of July 2022, we are eligible to prepay the Note in whole or in part with a prepayment premium of one percent (1%) of the principal being prepaid.

The Loan Agreement contains customary events of default including, but not limited to, a failure to make any payments pursuant to the Loan Agreement or Note, a failure to complete construction of the project, a lien of $100,000 or more against the property, or a transfer of the property without Hiawatha's consent. Upon the occurrence of an event of default, among other remedies, the amounts due pursuant to the Loan can be accelerated, Hiawatha can foreclose on the property pursuant to the mortgage, and a late charge of five percent (5%) of the amount due will be owed with all amounts then owed pursuant to the Note bearing interest at an increased rate.

We are required to maintain a Debt Service Coverage Ratio, as defined in the terms of the Loan Agreement, of not less than 1.25 to 1.00 for the period defined below and continuing to and including the Maturity Date. The Debt Service Coverage Ratio shall be tested on an annual basis, as of July 1, for each previous year. We maintained compliance under the Loan Agreement since its inception.

We made $181,639 in principal payments for the nine months ended December 31, 2023. The restricted cash can be released per the terms documented in the Loan Agreement filed with the Commission as an exhibit to Form 10-Q on February 14, 2022. During the year ended March 31, 2023, $500,000 of restricted cash was released with $500,000 remaining restricted. During the nine months ended December 31, 2023, the remaining $500,000 of restricted cash was released.

NOTE 12 – CAPITAL STOCK

Our authorized capital consists of 200,000,000 shares of common stock with a par value of $0.001 per share.

During the nine month period ended December 31, 2023, we issued 1,431,227 shares of common stock as follows:

- 1,431,227 shares valued at $2,977,845 were issued to employees, members of the Board of Directors, and members of the Advisory Committee as compensation

At December 31, 2023, outstanding and exercisable stock purchase warrants consisted of the following:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Life Remaining (Years)
Outstanding at March 31, 2023	2,460,946	$ 2.46	1.59
Granted	-	-	-
Exercised	-	-	-
Forfeited or cancelled	(204,650)	2.00	-
Outstanding at December 31, 2023	2,256,296	$ 2.51	1.05
Exercisable at December 31, 2023	2,256,296	$ 2.51	1.05

As of December 31, 2023, we had 2,256,296 warrants outstanding. Each warrant provides the holder the right to purchase up to one share of our Common Stock at a predetermined exercise price. The outstanding warrants consist of (1) warrants to purchase 911 shares of Common Stock at an exercise price of $1.65 per share until April 2025; (2) warrants to purchase 1,244,108 shares of our Common Stock at an exercise price of $2.00 per share consisting of 1% of the warrants until August 2024, and 99% until February 2026; (3) warrants to purchase 474,966 shares of Common Stock at an exercise price of $2.40 until September 2024; (4) warrants to purchase 386,311 shares of Common Stock at an exercise price of $2.63 until November 2025, and (5) warrants to purchase 150,000 shares of Common Stock at an exercise price of $6.72 until February 2024.

Option Granted

During the nine months ended December 31, 2023, we granted stock options ("Options") to purchase 400,000 shares of our Common Stock to our Chief Executive Officer, of which (i) 100,000 Options shall vest on the Effective Date, and (ii) 300,000 Options shall vest in equal quarterly installments of 25,000 over 3 years beginning on the first quarter ended September 30, 2023. The Options shall (a) be exercisable at an exercise price per share equal to the closing market price of the Company's common stock on the date of the grant, (b) have a term of ten years, and (c) be on such other terms as shall be determined by the Board (or the Compensation Committee of the Board) and set forth in a customary form of stock option agreement under the Plan evidencing the Options. We recognized $380,045 in expense related to the Options for the three and nine months ended December 31, 2023.

Number of Options	400,000
Option Vesting Period	Up to 3 years
Per share grant price	$ 2.08
Dividend yield	-
Expected volatility	83.5%
Risk-free interest rate	4.13%
Expected life (years)	5.75
Weighted average fair value	$ 1.50

NOTE 13 – PREFERRED STOCK

On May 18, 2021, the Company filed a Certificate of Designations (the "Certificate of Designations") with the Secretary of State of the State of Delaware to establish the preferences, voting powers, limitations as to dividends or other distributions, qualifications, terms and conditions of redemption and other terms and conditions of the Series A Preferred Stock.

The Company will pay cumulative cash dividends on the Series A Preferred Stock when, as and if declared by its board of directors (or a duly authorized committee of its board of directors), only out of funds legally available for payment of dividends. Dividends on the Series A Preferred Stock will accrue on the stated amount of $25.00 per share of the Series A Preferred Stock at a rate per annum equal to 8.75% (equivalent to $2.1875 per year), payable quarterly in arrears. Dividends on the Series A Preferred Stock declared by our board of directors (or a duly authorized committee of our board of directors) will be payable quarterly in arrears on March 15, June 15, September 15 and December 15.

Generally, the Series A Preferred Stock is not redeemable by the Company prior to May 18, 2026. However, upon a change of control or delisting event (each as defined in the Certificate of Designations), the Company will have a special option to redeem the

Series A Preferred Stock for a limited period of time.

Preferred dividends accumulated as of December 31, 2023 were $144,618. On May 15, 2023, the Board of Directors of the Company declared a dividend on the Company’s Series A Preferred Stock for the period beginning March 15, 2023 through and including June 14, 2023 payable on June 15, 2023 to holders of record of Series A Preferred Stock on May 31, 2023 equal to $0.55902778 per share. Dividends totaling $782,639 were paid on June 15, 2023. On August 15, 2023, the Board of Directors of the Company declared a dividend on the Company’s Series A Preferred Stock for the period beginning June 15, 2023 through and including September 14, 2023 payable on September 15, 2023 to holders of record of Series A Preferred Stock on August 31, 2023 equal to $0.55902778 per share. Dividends totaling $782,639 were paid on September 15, 2023. On November 15, 2023, the Board of Directors of the Company declared a dividend on the Company’s Series A Preferred Stock for the period beginning September 15, 2023 through and including December 14, 2023 payable on December 15, 2023 to holders of record of Series A Preferred Stock on November 30, 2023 equal to $0.5529514 per share. Dividends totaling $774,132 were paid on December 15, 2023.

NOTE 14 – GOODWILL AND INTANGIBLE ASSETS

Amortization expenses related to our intangible assets for the three and nine months ended December 31, 2023 and 2022 were $3,266,761 and $9,800,281, respectively.

		December 31, 2023		
	Life	Licenses	Patent	Other Intangible Assets
Licensing Agreement – Jesse James	5	$ 125,000	$ -	$ -
Licensing Agreement – Jeff Rann	5	125,000	-	-
Streak Visual Ammunition patent	11.2	-	950,000	-
SWK patent acquisition	15	-	6,124,005	-
Jagemann Munition Components:				
Customer Relationships	3	-	-	1,450,613
Intellectual Property	3	-	-	1,543,548
Tradename	5	-	-	2,152,076
GDI Acquisition:				
Tradename	15	-	-	76,532,389
Customer List	10	-	-	65,252,802
Intellectual Property	10	-	-	4,224,442
Other Intangible Assets	5	-	-	607,747
		250,000	7,074,005	151,763,617
Accumulated amortization – Licensing Agreements		(250,000)	-	-
Accumulated amortization – Patents		-	(2,411,349)	-
Accumulated amortization – Intangible Assets		-	-	(37,466,990)
		$ -	$ 4,662,656	$ 114,296,627

Annual amortization of intangible assets for the next five fiscal years are as follows:

Years Ended March 31,	Estimates for Fiscal Year
2024 (1)	$ 3,302,629
2025	12,664,775
2026	12,664,775
2027	12,553,355
2028	12,543,226
Thereafter	65,230,523
	$ 118,959,283

(1) This amount represents future amortization for the remaining three months of fiscal year 2024. It does not include any amortization for the nine months ended December 31, 2023.

NOTE 15 – SEGMENTS

Our Chief Executive Officer reviews financial performance based on our two operating segments as follows:

- Ammunition – which consists of our manufacturing business. The Ammunition segment engages in the design, production and marketing of ammunition and ammunition component products.
- Marketplace – which consists of the GunBroker.com marketplace. In its role as an auction site, GunBroker.com supports the lawful sale of firearms, ammunition and hunting/shooting accessories.

The reporting of the separate allocation of certain corporate general and administrative expenses includes non-cash stock compensation expense. The following tables set forth certain financial information utilized by management to evaluate our operating segments for the interim period presented:

	For the Three Months Ended December 31, 2023			
	Ammunition	Marketplace	Corporate and other expenses	Total
Net Revenues	$ 22,021,430	$ 13,985,034	$ -	$ 36,006,464
Cost of Revenues	23,022,304	2,073,784	-	25,096,088
General and administrative expense	1,305,721	2,454,695	5,669,557	9,429,973
Depreciation and amortization	125,012	3,276,144	-	3,401,156
Income/(Loss) from Operations	$ (2,431,607)	$ 6,180,411	$ (5,669,557)	$ (1,920,753)

	For the Nine Months Ended December 31, 2023			
	Ammunition	Marketplace	Corporate and other expenses	Total
Net Revenues	$ 64,261,473	$ 40,371,952	$ -	$ 104,633,425
Cost of Revenues	65,672,676	5,737,567	-	71,410,243
General and administrative expense	6,694,699	7,204,547	21,625,762	35,525,008
Depreciation and amortization	384,021	9,732,980	-	10,117,001
Income/(Loss) from Operations	$ (8,489,923)	$ 17,696,858	$ (21,625,762)	$ (12,418,827)

	For the Three Months Ended December 31, 2022			
	Ammunition	Marketplace	Corporate and other expenses	Total
Net Revenues	$ 23,292,292	$ 15,419,202	$ -	$ 38,711,494
Cost of Revenues	23,865,275	2,319,040	-	26,184,315
General and administrative expense	4,838,081	1,719,707	6,993,592	13,551,380
Depreciation and amortization	143,378	3,165,696	-	3,309,074
Income/(Loss) from Operations	$ (5,554,442)	$ 8,214,759	$ (6,993,592)	$ (4,333,275)

	For the Nine Months Ended December 31, 2022			
	Ammunition	Marketplace	Corporate and other expenses	Total
Net Revenues	$ 101,269,237	$ 46,486,842	$ -	$ 147,756,079
Cost of Revenues	97,555,732	6,701,797	-	104,257,529
General and administrative expense	12,117,828	6,713,561	14,490,456	33,321,845
Depreciation and amortization	437,694	9,513,058	-	9,950,752
Income/(Loss) from Operations	$ (8,842,017)	$ 23,558,426	$ (14,490,456)	$ 225,953

NOTE 16 – INCOME TAXES

The income tax provision effective tax rates were 22.1% and 19.1% for the three and nine months ended December 31, 2023, respectively, and 14.9% and 482.1% for the three and nine months ended December 31, 2022, respectively. During the three and nine months ended December 31, 2023, the effective tax rate differed from the U.S. federal statutory rate primarily due to employee stock awards. For the three and nine months ended December 31, 2022, the effective tax rate differed from the U.S. federal statutory rate due to state income taxes.

The Company has never had an Internal Revenue Service audit; therefore, the tax periods ended March 31, 2021, 2022 and 2023 are subject to audit.

NOTE 17 – RELATED PARTY TRANSACTIONS

During the nine months ended December 31, 2023, we paid $410,173 in service fees to two independent contractors consisting of a $244,640 payment due upon termination without cause. The two independent contractors were issued 168,581 shares of our common stock for a total value of $350,345, which consisted of an issuance of 134,240 shares due upon termination without cause. We issued 25,000 shares in the aggregate to our advisory committee members for service for a total value of $53,250. Through our acquisition of Gemini, a related party relationship was created through one of our Members of the Board of Directors by ownership of entities that transacts with Gemini. There was $201,646 included in our Accounts Receivable at December 31, 2023 as a result of this relationship.

On July 24, 2023, Fred Wagenhals departed as CEO and the Board appointed Mr. Wagenhals the Company's Executive Chairman. Mr. Wagenhals remains a member of the Board. Mr. Wagenhals received the following payments in connection with his transition from CEO to Executive Chairman: (i) total cash payments of $1,060,290; (ii) 300,000 shares of Common Stock for a total value of $624,000.

On July 26, 2023, we obtained a $1.6 million letter of credit with Northern Trust for collateral for a bond related to a judgement assessed to GunBroker.com. On July 17, 2023, we generated a $1.6 million certificate of deposit with Northern Trust for security on the letter of credit. The term of the certificate of deposit is twelve months and includes interest of approximately 5%. Per the terms of the Merger Agreement, filed with the Commission on a Current Report on Form 8-K on May 6, 2021 (the "Current Report"), the Seller is required to pay or be liable for these losses (capitalized terms are defined the Current Report).

In July of 2023, the Company filed suit in the Delaware Chancery Court against Director and Shareholder Steve Urvan for claims arising out of the Company's acquisition of certain companies referenced as the GunBroker.com family of companies. The claims arise based upon Mr. Urvan's repeated failure and refusal to honor contractual defense and indemnification obligations arising under that certain Merger Agreement, along with alleged misrepresentations.

NOTE 18 – SUBSEQUENT EVENTS

Common Stock Issuances

Subsequent to the December 31, 2023, the Company issued 17,391 shares as employee stock awards for a total value of $36,521.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis of Financial Condition and Results of Operations is provided to assist the reader in understanding the results of operations, financial condition, and liquidity through the eyes of our management team. This section should be read in conjunction with other sections of this Quarterly Report, specifically, our Consolidated Financial Statements and Supplementary Data.

FORWARD-LOOKING STATEMENTS

This document contains certain "forward-looking statements." All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies, goals and objectives of management for future operations; any statements concerning proposed new products and services or developments thereof; any statements regarding future economic conditions or performance; any statements or belief; and any statements of assumptions underlying any of the foregoing.

Forward looking statements may include the words "may," "could," "estimate," "intend," "continue," "believe," "expect," or "anticipate," or other similar words, or the negative thereof. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures and risk factors we included in the section titled Risk Factors contained herein.

In our filings with the Securities and Exchange Commission, references to "AMMO, Inc.", "AMMO", "the Company", "we," "us," "our" and similar terms refer to AMMO, Inc., a Delaware corporation, and its wholly owned consolidated subsidiaries.

Overview

AMMO, Inc., owner of the GunBroker.com Marketplace, the largest online marketplace serving the firearms and shooting sports industries, and a vertically integrated producer of high-performance ammunition and premium components began its operations in 2016.

Through our GunBroker.com Marketplace segment (acquired in April 2021), we allow third party sellers to list items consisting of firearms, hunting gear, fishing equipment, outdoor gear, collectibles, and much more on our site, while facilitating compliance with federal and state laws that govern the sale of firearms and restricted items. This allows our base of over 8.0 million users to follow ownership policies and regulations through our network of over 32,000 federally licensed firearms dealers as transfer agents. The nature and operation of the Marketplace as an online auction and sales platform also affords our Company a unique view into the total domestic market for the purpose of understanding sales trends at a granular level across all elements of the outdoor sports and shooting space. Our vision is to expand the services on GunBroker.com and to become a peer to those in our industry. In the short term, we will be implementing the following services;

- Payment Processing - facilitating payment between parties allowing sellers of all sizes to offer fast and secure electronic payments and allowing buyers to experience the ease of using a single form of payment for all items purchased,

- Carting Ability - allowing our buyers to purchase multiple items from multiple sellers at one point in time, and,

- GunBroker.com Analytics – through the compilation and refinement of vast Marketplace data, we plan to offer domestic market analytics to our industry peers to allow them to better manage their businesses.

Through our Ammunition segment, we are tailoring our focus to build a new future for our manufacturing operations focused on premium pistol and rifle ammunition and supporting industry partners for manufactured components. We will continue to leverage our proprietary brands like Streak Visual Ammunition™ and Stelth subsonic ammunition and extend our product offering with premium rifle lines and brands that complement our technologically innovative heritage. We also continue to ensure dynamic performance under the exacting standards of the US military complex in support of our cutting-edge developmental ammunition programs as we seek out and effectively execute upon new governmental-based opportunities.

In September of 2022, we began operating out of our new 185,000 square foot manufacturing facility. This new, state-of-the-art ammunition production facility is part of our commitment to the continuing development of differentiated, cutting-edge technology.

Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. The following information should be read in conjunction with our consolidated financial statements included in this Quarterly Report beginning on page 3.

Our financial results for the three and nine months ended December 31, 2023 reflect our newly positioned organization as we transition into our new strategic direction. We believe that we have hired a strong team of professionals, developed innovative products, and continue to raise capital sufficient to establish our presence as a high-quality ammunition provider and marketplace. We continue to focus on growing our top line revenue and streamlining our operations. We experienced a 7.0% and 29.2% decrease in our Net Revenues for the three and nine months ended December 31, 2023 compared with the three and nine months ended December 31, 2022. This was the result of decreased ammunition sales due to changes in market demand as well as a shift in operations to an increased focus on ammunition casing sales.

The following table presents summarized financial information taken from our condensed consolidated statements of operations for the three and nine months ended December 31, 2023 compared with the three and nine months ended December 31, 2022:

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Sales	$ 36,006,464	$ 38,711,494	$ 104,633,425	$ 147,756,079
Cost of Revenues	25,096,088	26,184,315	71,410,243	104,257,529
Gross Margin	10,910,376	12,527,179	33,223,182	43,498,550
Sales, General and Administrative Expenses	12,831,129	16,860,454	45,642,009	43,272,597
Income (loss) from Operations	(1,920,753)	(4,333,275)	(12,418,827)	225,953
Other income (expense)				
Other expense	(188,470)	(490,842)	(233,375)	(509,998)
Loss before provision for income taxes	$ (2,109,223)	$ (4,824,117)	$ (12,652,202)	$ (284,045)
Provision (benefit) for income taxes	(465,234)	(721,125)	(2,419,883)	1,369,427
Net Loss	$ (1,643,989)	$ (4,102,992)	$ (10,232,319)	$ (1,653,472)

Non-GAAP Financial Measures

We analyze operational and financial data to evaluate our business, allocate our resources, and assess our performance. In addition to total net sales, net loss, and other results under accounting principles generally accepted in the United States ("GAAP"), the following information includes key operating metrics and non-GAAP financial measures we use to evaluate our business. We believe these measures are useful for period-to-period comparisons of the Company. We have included these non-GAAP financial measures in this Quarterly Report on Form 10-Q because they are key measures we use to evaluate our operational performance, produce future strategies for our operations, and make strategic decisions, including those relating to operating expenses and the allocation of our resources. Accordingly, we believe these measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA

	For the Three Months Ended		For the Nine Months Ended	
	31-Dec-23	31-Dec-22	31-Dec-23	31-Dec-22
Reconciliation of GAAP net income to Adjusted EBITDA				

Net Loss	$ (1,643,989)	$ (4,102,992)	$ (10,232,319)	$ (1,653,472)
Provision for Income Taxes	(465,234)	(721,125)	(2,419,883)	1,369,427
Depreciation and amortization	4,753,650	4,356,004	14,047,216	12,950,972
Interest expense, net	193,046	320,439	609,561	538,191
Employee stock awards	687,099	2,106,535	2,977,845	4,457,973
Stock grants	50,750	43,750	152,250	135,344
Common stock purchase options	380,045	-	380,045	-
Warrant Issuance	-	106,909	-	106,909
Other (income) expense, net	(4,576)	170,403	(376,186)	(28,193)
Contingent consideration fair value	(39,274)	(20,326)	(60,298)	(45,572)
Other nonrecurring expenses(1)	1,498,684	3,983,254	8,126,102	4,724,385
Adjusted EBITDA	$ 5,410,201	$ 6,242,851	$ 13,204,333	$ 22,555,964

(1) For the three and nine months ended December 31, 2023, other nonrecurring expenses consist of professional and legal fees that are nonrecurring in nature. For the three and nine months ended December 31, 2022, other nonrecurring expenses consist of proxy contest fees.

Adjusted EBITDA is a non-GAAP financial measure that displays our net loss, adjusted to eliminate the effect of certain items as described below.

The items shown in the table above are included as adjustments because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations.

We have modified our Adjusted EBITDA calculation in the current period to remove the adjustment for Excise Taxes as we believe this is a better representation of our operations. In prior periods, we included an adjustment for Excise Taxes.

Non-GAAP financial measures have limitations, should be considered as supplemental in nature and are not meant as a substitute for the related financial information prepared in accordance with GAAP. These limitations include the following:

- Employee stock awards and stock grants expense has been, and will continue to be for the foreseeable future, a significant recurring expense in the Company and an important part of our compensation strategy;
- the assets being depreciated or amortized may have to be replaced in the future, and the non-GAAP financial measures do not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or other capital commitments; and
- non-GAAP measures do not reflect changes in, or cash requirements for, our working capital needs
- other companies, including companies in our industry, may calculate the non-GAAP financial measures differently or not at all, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider the non-GAAP financial measures alongside other financial performance measures, including our net loss and our other financial results presented in accordance with GAAP.

Net Sales

The following table shows our net sales by proprietary ammunition versus standard ammunition as well as our marketplace revenue for the three and nine months ended December 31, 2023 and 2022. “Proprietary Ammunition” include those lines of ammunition manufactured by our facilities that are sold under the brand names: STREAK VISUAL AMMUNITION™ and Stelth. We define “Standard Ammunition” as non-proprietary ammunition that directly competes with other brand manufacturers. Our “Standard Ammunition” is manufactured within our facility and may also include completed ammunition that has been acquired in the open market for sale to others. Also included in this category is low cost target pistol and rifle ammunition, as well as bulk packaged ammunition manufactured by us using reprocessed brass casings. Ammunition within this product line typically carries lower gross margins.

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Proprietary Ammunition	$ 1,818,235	$ 2,090,785	$ 4,153,410	$ 8,298,711
Standard Ammunition	15,504,732	18,160,180	42,792,175	82,309,106
Ammunition Casings	4,698,463	3,041,327	17,315,888	10,661,420
Marketplace Revenue	13,985,034	15,419,202	40,371,952	46,486,842
Total Sales	$ 36,006,464	$ 38,711,494	$ 104,633,425	$ 147,756,079

Sales for the three and nine months ended December 31, 2023 decreased 7.0% and 29.2% or approximately $2.7 million and $43.1 million, respectively, due to changes in market conditions and our shift to increase ammunition casing sales. The decrease for the three month period was largely the result of a decrease of $2.7 million in sales of bulk pistol and rifle ammunition, a decrease of $0.3 million of sales of Proprietary Ammunition, and a decrease of $1.4 million generated from our marketplace, GunBroker.com, which includes auction revenue, payment processing revenue, and shipping income. Our ammunition casings sales increased $1.7 million or 54.5% over the prior year period. The decrease for the nine month period was largely the result of a decrease of $39.5 million in sales of bulk pistol and rifle ammunition, a decrease of $4.1 million of sales of Proprietary Ammunition, and a decrease of $6.1 million generated from our marketplace, GunBroker.com, which includes auction revenue, payment processing revenue, and shipping income. Our ammunition casings sales increased $6.7 million or 62.4% over the prior year period. Management expects the sales growth rate of Proprietary Ammunition to greatly outpace the sales of our Standard Ammunition.

We are focused on continuing to grow top line revenue quarter-over-quarter as we continue to further expand distribution into commercial markets, introduce new product lines, and continue to initiate sales to U.S. law enforcement, military, and international markets.

Through our ownership of SWK, the Company has developed and deployed a line of tactical armor piercing (AP) and hard armor piercing incendiary (HAPI) precision ammunition to meet the lethality requirements of both the US and foreign military customers. We continue to demonstrate our AP and HAPI ammunition to military personnel at scheduled and invite only events, resulting in increased interest and procurement discussions. The Company has since developed the ballistic match (BMMPR) and signature-on-target (SoT) rounds under contract with the U.S. Government in support of US special operations which have been publicly announced pursuant to governmental authorization. Additional work continues in support of the military operations of the U.S. and its ally military components which is not currently subject to disclosure.

It is important to note that, although U.S. law enforcement, military and international markets represent significant opportunities for our Company, they also have a long sales cycle. The Company's sales team has been effective in establishing sales and distribution channels, both in the United States and abroad, which are reasonably anticipated to drive sustained sales opportunity in the military, law enforcement, and commercial markets.

Sales outside of the United States require licenses and approval from either the U.S. Department of Commerce or the U.S. State Department, which typically takes approximately 30 days to receive. On June 12, 2023, we renewed our annual registration with the International Traffic in Arms Regulations ("ITAR"), which remains valid through the report date. This permits the Company to export and broker ammunition and other controlled items covered under ITAR.

Cost of Revenues

Cost of Revenues decreased by approximately $1.1 million and $32.8 million to $25.1 million and $71.4 million for the three and nine months ended December 31, 2023 compared to the comparable period ended in 2022. This was the result of a significant decrease in net sales during 2023 as compared to 2022.

Gross Margin

Our gross margin percentage decreased to 30.3% from 32.4% during the three months ended December 31, 2023, respectively, as compared to the same period in 2022. Our gross margin percentage increased to 31.8% from 29.4% during the nine months ended December 31, 2023, respectively, as compared to the same period in 2022. The shift in our gross margin was related to changes in our revenue mix, materials cost, and labor and overhead expenses.

We believe as we continue to grow sales through new markets and expanded distribution that our gross margins will also increase by efficiencies added through our new production facility. Our goal in the next 12 to 24 months is to continue to improve our gross margins. This will be accomplished through the following:

- Increased product sales, specifically of proprietary lines of ammunition, like the STREAK VISUAL AMMUNITION™, Stelth and now our tactical Armor Piercing (AP) and Hard Armor Piercing Incendiary (HAPI) precision ammunition, all of which carry higher margins as a percentage of their selling price;

- Introduction of new lines of ammunition that historically carry higher margins in the consumer and government sectors;

- Reduced component costs through operation of our ammunition segment and expansion of strategic relationships with component providers;

- Expanded use of automation equipment that reduces the total labor required to assemble finished products; and

- Better leverage of our fixed costs through expanded production to support the sales objectives.

Operating Expenses

Overall, our operating expenses decreased by approximately $4.0 million for the three months ended December 31, 2023 and increased $2.4 million for the nine months ended December 31, 2023, over the three and nine months ended December 31, 2022. Operating expenses decreased as a percentage of sales from 43.6% to 35.6% for the three months ended December 31, 2023 and increased as a percentage of sales from 29.3% to 43.6% for the nine months ended December 31, 2023. Our operating expenses include non-cash depreciation and amortization expense of approximately $3.4 and $10.1 million for the three and nine months December 31, 2023. Our operating expenses consisted of commissions related to our sales, stock compensation expense associated with issuance of our Common Stock in lieu of cash compensation for employees, board members, and key consultants for the organization during the period. Operating expenses for the three and nine months ended December 31, 2023 included noncash expenses of approximately $4.5 million and $13.6 million, respectively.

During the three and nine months ended December 31, 2023, our selling and marketing expenses decreased by approximately $0.8 million and $3.2 million, in comparison to the three and nine months ended December 31, 2022. The decrease was primarily related to decreases in sales commission due to the decrease in the sale of our products.

Our corporate general and administrative expenses decreased approximately $2.0 million for the three months ended December 31, 2023 and increased $3.7 million for the nine months ended December 31, 2023 from the comparable prior period primarily due to a decrease of $2.8 million and an increase of $3.4 million in nonrecurring legal and professional fees and expenses.

Employee salaries and related expenses decreased approximately $1.3 million and increased $1.7 million for the three and nine months ended December 31, 2023 compared to the comparable period ended in 2022. The decrease for the three months ended December 31, 2023 was due to a $1.4 million decrease in employee stock compensation and the increase for the nine months ended December 31, 2023 when compared to the prior period, was primarily related to $1.0 million of additional payroll expenses incurred related to our CEO transition, a decrease of $1.5 million of employee stock awards and $2.4 million expenses related to our new employee bonus plan.

Depreciation and amortization expenses for the three and nine months ended December 31, 2023 increased by approximately $0.1 million and $0.2 million, respectively.

Interest and Other Expenses

For the three months ended December 31, 2023, interest expense increased by approximately $0.1 million and increased $0.1 million for the nine months ended December 31, 2023 compared with the comparable three and nine months ended December 31, 2022. The change from the prior periods was mainly due to activity from our Construction Note Payable.

Income Taxes

For the three and nine months ended December 31, 2023, we recorded a benefit for federal and state income taxes of approximately $0.5 million and $2.4 million, respectively. For the three months ended December 31, 2022, we recorded a benefit for federal and state income taxes of approximately $0.7 million and for the nine months ended December 31, 2022 we recorded a provision for federal and state income taxes of $1.4 million.

Net Loss

We ended the three months ended December 31, 2023 with a net loss of approximately $1.6 million compared with a net loss of approximately $4.1 million for the three months ended December 31, 2022. We ended the nine months ended December 31, 2023 with a net loss of approximately $10.2 million compared with a net loss of approximately $1.7 million for the nine months ended December 31, 2022.

Our goal is to continue to improve our operating results as we focus on increasing sales and controlling our operating expenses.

Liquidity and Capital Resources

As of December 31, 2023, we had $54,679,868 of cash and cash equivalents, an increase of $15,045,841 from March 31, 2023.

Working Capital is summarized and compared as follows:

	December 31, 2023	March 31, 2023
Current assets	$ 129,012,915	$ 128,451,893
Current liabilities	26,618,871	25,463,399
	$ 102,394,044	$ 102,988,494

Changes in cash flows are summarized as follows:

Operating Activities

For the nine months ended December 31, 2023, net cash provided by operations totaled approximately $28.3 million. This was primarily the result of net loss of approximately $10.2 million, which was offset by decreases in our accounts receivable of approximately $7.1 million, decreases in deposits of approximately $4.8 million, decreases in prepaid expenses of approximately $2.5 million, decreases in our inventories of approximately $4.8 million, and increases in our accounts payable of approximately $1.1 million, and increases in accrued liabilities of approximately $2.1 million. Non-cash expenses for depreciation and amortization totaled approximately $14.0 million and non-cash expenses for employee stock awards totaled $3.0 million.

For the nine months ended December 31, 2022, net cash provided by operations totaled approximately $18.4 million. This was primarily the result of net loss of approximately $1.7 million, which was offset by decreases in our accounts receivable of approximately $12.2 million, decreases in prepaid expenses of approximately $1.9 million, and decreases in our accounts payable of approximately $5.8 million, increases in our inventories of approximately $8.1 million, and decreases in deposits of approximately $1.7 million. Non-cash expenses for depreciation and amortization totaled approximately $13.0 million and non-cash expenses for employee stock awards totaled $4.5 million.

Investing Activities

For the nine months ended December 31, 2023, we used approximately $5.6 million in net cash for investing activities. Net cash used in investing activities consisted of approximately $5.6 million related to purchases of production equipment for our new manufacturing facility in Manitowoc, WI and capitalized development costs related to our marketplace, GunBroker.com.

During the nine months ended December 31, 2022, we used approximately $10.6 million in net cash for investing activities. Net cash used in investing activities consisted of approximately $9.3 million related to purchases of production equipment and the construction of our new manufacturing facility in Manitowoc, WI.

Financing Activities

For the nine months ended December 31, 2023, net cash used in financing activities was approximately $7.7 million. This was the net effect of approximately $2.2 million used in our common stock repurchased plan, $3.0 million from insurance premium note payments, approximately $2.2 million of Preferred Stock dividends paid, and the generation of approximately $37.2 million from accounts receivable factoring, which was offset by payments of approximately $37.2 million.

During the nine months ended December 31, 2022, net cash used in financing activities was approximately $3.6 million. This was the net effect of an approximate $0.8 million reduction in our Inventory Credit Facility, approximately $1.9 million from insurance premium note payments, approximately $2.2 million of Preferred Stock dividends paid, generation of approximately $57.3 million from accounts receivable factoring, which was offset by payments of approximately $56.1 million, and proceeds from our Construction Note Payable of $1.0 million.

Liquidity

Existing working capital, cash flow from operations, bank borrowings, and sales of equity and debt securities are expected to be adequate to fund our operations over the next year. Generally, we have financed operations to date through the proceeds of stock sales, bank financings, and related-party notes. These sources have been adequate to fund our recurring cash expenditures including but not limited to our working capital requirements, capital expenditures to expand our operations, debt repayments, and acquisitions. We intend to continue to use the aforementioned sources of funding for capital expenditures, debt repayments, share repurchases and any potential acquisitions.

Leases

We lease three locations that are used for our offices, production, and warehousing. As of December 31, 2023, we had $2.2 million of fixed lease payment obligations with $0.5 million payable within the next 12 months. Please refer to Note 9 – Leases in our financial statements for additional information.

Construction Note Payable

We have financed a portion of our new production facility with our Construction Note Payable. We expect to make $0.3 million in principal and interest payments within the next 12 months. The principal balance of the Construction Note will mature on October 14, 2026.

Off-Balance Sheet Arrangements

As of December 31, 2023, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, net sales, expenses, results of operations, liquidity capital expenditures, or capital resources.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the condensed consolidated financial statements include the valuation of allowances for doubtful accounts, valuation of deferred tax assets, inventories, useful lives of assets, goodwill, intangible assets, stock-based compensation, and warrant-based compensation. A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended March 31, 2023, under "Management's Discussion and Analysis of Financial Condition and Results of Operations." We adopted ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326) and ASU 2022-03, "Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions" in the current period. These policy changes did not result in a material effect on the Company's financial statements. There have been no other significant changes to these policies during the three and nine months ended December 31, 2023. For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2023.

Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting unit. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions. Due to the declines in the value of our stock price and market capitalization in the year ended March 31, 2023, we assessed qualitative factors to determine if it is more likely than not that the fair value of the Marketplace segment is less than its carrying amount. Through our analysis we determined our stock price and market capitalization decline it is not indicative of a decrease in the fair value of our Marketplace segment and a fair value calculation using the discounted cash flows was more appropriate due to the operational performance of the reporting segment. Accordingly, the impairment of Goodwill was not warranted for the three months ended December 31, 2023. As of December 31, 2023, the Company has a goodwill carrying value of $90,870,094, all of which is assigned to the Marketplace segment. However, should there continue to be a decline in the Company's market capitalization, it is possible that the book values of our Marketplace segment could exceed its fair value, which may result in the recognition of a material, noncash impairment of goodwill for the year ending March 31, 2024.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks are similar to those disclosed under the caption "Quantitative And Qualitative Disclosures About Market Risk" in Part II, Item 7A of our Annual Report on Form 10-K for the year ended March 31, 2023 and filed with the SEC on June 14, 2023 and is hereby incorporated by reference.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(c) and 15d-15(e) under the Exchange Act, as of December 31, 2023. Our disclosure controls and procedures are designed to provide reasonable assurance that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Based on this evaluation, and because of the material weaknesses described below, our CEO and CFO have concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of December 31, 2023.

Notwithstanding the material weaknesses that were identified and continued to exist as of December 31, 2023, management believes that the financial statements included in this report present fairly in all material respects our financial position, results of operations and cash flows for the period presented, nor were there changes to previously released financial results.

Material Weaknesses and Management's Remediation Plan

A material weakness is a deficiency, or a combination of deficiencies, within the meaning of Public Company Accounting Oversight Board ("PCAOB") Auditing Standard AS 2201, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. The following material weaknesses in our internal control over financial reporting remained as of December 31, 2023:

The Company failed to maintain an effective control environment due to the following:

- the Company's management and the governance did not maintain appropriately designed entity-level controls impacting the control environment to prevent or detect material misstatements to the consolidated financial statements. These deficiencies were attributed to limited personnel to assist with the accounting and financial reporting function and inadequate oversight and accountability over the performance of control activities, including establishment of a Whistleblower Hotline and lack of formalization of certain key governance elements: management delegation, annual board committee charter review, acknowledgement of code of conduct, and approval of the annual budget;

- the Company failed to maintain properly designed segregation of duties, both within manual processes and system access;

- the Company failed to maintain effectively designed controls over journal entries, both recurring and nonrecurring, account reconciliations, and periodic flux analysis. Journal entries were not always accompanied by sufficient supporting documentation and were not adequately reviewed and approved for validity, completeness, and accuracy. In most instances, persons responsible for reviewing journal entries and account reconciliations for validity, completeness, and accuracy were also responsible for preparation.

- the Company failed to maintain effectively designed controls over the period-end financial reporting process, including adequate tie-out and review of documentation that supports the financial statements; and

- the Company failed to maintain effectively designed controls over information technology general controls in the areas of user provisioning and de-provisioning, application change management, operating system and logical access controls, and segregation of duties for information technology ("IT") systems that supports the Company's financial reporting process.

Management's Remediation Initiatives

We have concluded that these material weaknesses arose because we did not have the necessary business processes, systems, personnel, and related internal controls.

In response to the material weaknesses, management, with the oversight of the Audit Committee of the Board of Directors, has continued the process of, and is committed to, designing and implementing effective measures to strengthen our internal controls over financial reporting and remediate the material weaknesses. The Company is committed to ensuring that a proper, consistent tone is communicated throughout the organization, which emphasizes the expectation that previously existing deficiencies will be rectified through implementation of processes and controls to ensure strict compliance with U.S. GAAP and regulatory requirements.

Our third–party consulting firm that specializes in internal audit work, and more specifically internal controls over financial reporting work, has assisted management and will continue to assist management with our risk assessment of internal control over financial reporting as well as documentation and testing of our internal control structure and evaluation of material weaknesses, with special focus on assisting management in the establishment and evaluation of proper segregation of duties procedures and monitoring and controls over ITGCs for the systems that support our financial reporting process. Specifically, with the right compliment of accounting and finance team members now in place, our entire control environment is being evaluated for enhancement of our internal controls over financial reporting.

In addition to the measures noted above, we have made progress in our remediation plan including the following items:

- Management has presented, and the Board of Directors has approved the formal management delegation and the Company's Annual Budget during the first quarter of fiscal year 2024.

- The Company formally completed the implementation of a whistleblower hotline during the third quarter of fiscal year 2024.

- Approved, adopted, and implemented accounting policies related to journal entries and invoice approval.

- Improved formalization of procedures and documentation for all journal entries, account reconciliations, flux analysis and variance thresholds, vendor set-up.

- Completed the IT Remediation Project with third-party consultants to develop IT policies and procedures. The Company is now executing related controls over user provisioning and de-provisioning, application change management, operating system and logical access controls, segregation of duties, and third-party service provider report review process.

- Implemented improvements surrounding review and approval of controls with a review element, including proper segregation, enhanced documentation, and consistency of application.

- Continued evaluation of organizational structure with hiring of additional personnel across key functions.

As of the end of the third quarter of fiscal year 2024, management, with the help of our third-party consulting firm, completed walkthroughs of our key controls, including those additional controls that would be necessary to effectively remediate the existing material weaknesses. Through this assessment, we continued enhancement of the design of the overall controls framework. Further assessments will be made of these controls, in addition to continued evaluation of management remediation actions identified above, to ascertain operating effectiveness, after which we will be able to determine if the existing material weaknesses have been remediated.

While these actions and planned actions are subject to ongoing management evaluation and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, we are committed to the continuous improvement of our internal control over financial reporting and will continue to diligently review our internal control over financial reporting.

Changes in Internal Controls

Other than the changes described above, there have not been any changes in our internal control over financial reporting (as such term is defined in Exchange Act in Rule 13a-15(c) and 15d-15(e) under the Exchange Act) during the quarter ended December 31, 2023 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

We are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings, and investigations in the ordinary course of business. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position, results of operations or cash flows. We record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated.

Please reference the Contingencies section of Note 2 of our financial statements for additional disclosure.

ITEM 1A. RISK FACTORS

Our market risks at are similar to those disclosed under the caption “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2023 and filed with the SEC on June 14, 2023. There have been no material changes to our Risk Factors disclosed in Annual Report on Form 10-K.

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

Issuances

The authorized capital of the Company is 200,000,000 shares of Common Stock with a par value of $0.001 per share and 10,000,000 shares of Preferred Stock with a $0.001 par value per share.

There were no unregistered sales of the Company’s equity securities during the quarter ended December 31, 2023.

Share Repurchases

On February 8, 2022, we announced that our Board of Directors authorized a share repurchase program for up to $30.0 million of our outstanding common stock. On March 28, 2023, we announced that our Board of Directors authorized the extension of our repurchase program until February 2024. On February 6, 2024, our Board of Directors authorized the extension of our repurchase program until February 2025.

Under the Share Repurchase Program, the Company is authorized to repurchase shares through open market purchases, privately-negotiated transactions, accelerated share repurchases or otherwise in accordance with applicable federal securities laws, including through Rule 10b5-1 trading plans and under Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The repurchases have no time limit and may be suspended or discontinued completely at any time. The specific timing and amount of repurchases will vary based on available capital resources and other financial and operational performance, market conditions, securities law limitations, and other factors. The repurchases will be made using the Company’s cash resources.

The following table summarizes our share repurchases under our repurchase program for our third fiscal quarter of our 2024 fiscal year.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plan or Programs(1)
October 2023	-		-	
November 2023	11,000	$ 2.00	11,000	
December 2023	134,483	$ 2.02	134,483	
Total	145,483	$ 2.01	145,483	13,025,593

(1) The maximum number of shares that may yet be repurchased included herein is determined based on the closing price of our Common Stock of $2.10 on December 29, 2023. This amount may change based on the price that our Common Stock trades at.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit
10.1#	Loan and Security Agreement by and between AMMO, Inc., other borrowers party to the Agreement and Sunflower Bank, N.A. (Incorporated by Reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 5, 2024).
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jared R. Smith.
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Rob Wiley.
32.1**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jared R. Smith.
32.2**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Rob Wiley.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Certain schedules and similar attachments have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or similar attachment will be furnished supplementally to the Securities and Exchange Commission upon request.

*Filed Herewith.

** Furnished Herewith.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	AMMO, INC.
	/s/ Jared R. Smith
Dated: February 8, 2024	By: Jared R. Smith, Chief Executive Officer
	/s/ Robert D. Wiley
Dated: February 8, 2024	By: Robert D. Wiley, Chief Financial Officer