

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2024

or

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

For the transition period from _____ to _____

Commission file number 001-13101

AMMO, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
State or other jurisdiction
of incorporation or organization

83-1950534
(I.R.S. Identification
No.)

7681 E Gray Road, Scottsdale, AZ 85260
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the common stock of the registrant by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter (September 30, 2023) was \$179,118,089.

As of June 10, 2024, there were 119,181,067 shares outstanding of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the definitive proxy statement for the registrant's 2024 Annual Meeting of Stockholders to be filed within 120 days after the end of the registrant's fiscal year.

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ADDITIONAL INFORMATION

Descriptions of agreements or other documents contained in this report are intended as summaries and are not complete descriptions thereof. Please refer to the agreements or other documents filed or incorporated herein by reference as exhibits. Please see the exhibit index at the end of this report for a complete list of those exhibits.

In our Form 10-K, Form 10-Q and Form 8-K filings with the Securities and Exchange Commission, references to: (a) “Common Stock” refers to our common stock, \$0.001 par value per share; (b) “2024 fiscal year” refers to the fiscal year that end on March 31, 2024; (c) “AMMO, Inc.,” “AMMO,” “the Company,” “we,” “us,” “our” and similar terms refer to AMMO, Inc. and its wholly owned operating subsidiaries Enlight Group II, LLC, AMMO Munitions, Inc., Firelight Group I LLC, Speedlight Group I, LLC, SNI, LLC, GB Investments, Inc., IA Tech, LLC, Outdoors Online, LLC, Enthusiast Commerce, LLC, five other subsidiaries listed on Exhibit 21.1 filed with this Annual Report on Form 10-K, and AMMO Technologies, Inc. (with AMMO Technologies, Inc. currently being inactive); and (d) “Series A Preferred Stock” refers to our 8.75% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.001 par value per share.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such “forward-looking statements” may include, but are 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. In some cases, you may also identify forward-looking statements based on the fact that they do not relate solely to historical fact. These forward-looking statements present our estimates and assumptions only as of the date of this report and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. 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, except as required by law. You should, however, consult further disclosures and risk factors we include in Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K.

PART I

ITEM 1. BUSINESS.

Introduction

Ammo Inc. is a conglomerate of two premium positions in the shooting sports industry. Ammo Inc. started in ammunition manufacturing and broadened its portfolio with the acquisition of GunBroker.com (“GunBroker”) in 2021. GunBroker is an e-commerce marketplace (“Marketplace”) that connects buyers and sellers with new/used firearms and ancillary gear and componentry for the outdoor community. GunBroker helps facilitate this community with a state and federal compliant solution that connects buyers with sellers across the United States (“U.S.”) with their local federally licensed firearm dealers. This allows our base of approximately 8.1 million users to follow ownership policies and regulations through our network of over 31,000 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 view into the total domestic market for the purpose of understanding sales trends at a granular level across all elements of the outdoor and sports shooting space.

Reportable Segments

We operate our business within, and our Chief Executive Officer reviews financial performance based on two operating segments as described below.

- Ammunition – which consists of our manufacturing business. The Ammunition segment engages in the design, production and marketing of ammunition, ammunition components and related products.
- Marketplace – which consists of the GunBroker e-commerce marketplace. In its role, GunBroker supports the lawful sale of firearms, ammunition, and hunting/shooting accessories.

See Note 20 of our consolidated financial statements for more information regarding our reportable segments.

Marketplace Segment - GunBroker

We acquired GunBroker.com on April 30, 2021, pursuant to an agreement and plan of merger by and among us, SpeedLight Group I, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company (“Sub”), Gemini Direct Investments, LLC, a Nevada limited liability company (“Gemini”), and Steven F. Urvan, dated as of such date, whereby Sub merged with and into Gemini, with Sub surviving the merger as our wholly owned subsidiary. At the time of the merger, Gemini had nine subsidiaries, all of which related to Gemini’s ownership of the GunBroker.com business.

GunBroker is a large online marketplace dedicated to firearms, hunting, shooting and related products. Aside from merchandise bearing its logo, GunBroker does not hold any inventory listed on its site and serves to facilitate transactions between buyers and sellers. Third-party sellers list items on the site and federal and state laws govern the sale of firearms and other restricted items. Licensed firearms dealers act as transfer agents to ensure compliance with ownership policies and regulations during online transactions. GunBroker has approximately 8.1 million registered users and had over 2.6 million average daily listings on its site for the 2024 fiscal year.

We intend to continue to expand the services we provide on GunBroker, which will enable us to become a partner to those in our industry. In this regard, we implemented the following services since January 2023;

- Payment Processing – facilitating payment between parties allowing sellers to offer fast and secure electronic payments and allowing buyers to experience the ease of instant checkout.
- Carting Ability – enabling buyers to checkout multiple items from multiple sellers in a single transaction. Buyers will be able finalize transactions, including both regulated and nonregulated items, allowing one payment, while also having the ability to ship their purchases to more than one location. By way of example, a buyer will be able to complete a transaction with a single payment and ship the regulated items purchased to a registered federal firearms license dealer and the nonregulated items directly to their own address.
- GunBroker Analytics – through the compilation and refinement of vast Marketplace data, we offer e-commerce market analytics to our industry peers allowing them to better manage business strategy and planning. The analytics offering will be rebranded to Outdoor Analytics during fiscal year 2025 to expand service offerings.
- GunBroker Advertising – content creation for manufacturers, email campaigns, and banner ads are all part of our advertising offerings to the outdoor industry.

Further, we intend to implement the following additional services in our 2025 fiscal year:

- Collector’s Elite – a new initiative designed specifically for the discerning collector. This premium program offers curated, high-end auctions featuring rare and distinct firearms and collectibles, with a unique, cost-effective structure tailored to enhance both buyer and seller experiences.
- Financing Partnerships – through our partnership with Gearfire Capital, we aim to empower retailers by offering flexible financing options to their customers, enhancing purchasing power and driving sales growth. This initiative will enable participating retailers to offer their customers competitive financing options, making it easier for buyers to purchase the products they need and want.

Enhance Market Share, Brand Recognition, and Customer Loyalty

Our work to enhance and simplify the user experience on the GunBroker Marketplace platform, while adding to its merchandise and related offerings,

is designed to enhance the GunBroker brand by ensuring customer (both buyers and sellers) adhesion is amplified as they access one of the largest single on-line destinations for outdoor and shooting sports enthusiasts within the U.S. market.

Ammunition Segment – Manufacturing

Our manufacturing operations are currently based out of Manitowoc, Wisconsin (“WI”). We manufacture small arms ammunition and their components for the commercial, military, and law enforcement community. Our core competency lies in our ability to deep draw rifle brass casings with a high degree of precision up to 50 caliber. As the ability to deep draw rifle cases allows our manufacturing facility to have precise control over dimensions, ensuring consistent cartridge dimensions for reliable firearm function. Our manufacturing capacities are dependent upon mix, labor, and the number of shifts we are running. We emphasize an American heritage by using predominantly American-made components and raw materials in our products that are produced, inspected, and packaged at our facilities in Manitowoc, WI.

We focus on manufacturing 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/™ and extend our product offering with premium rifle lines and brands. We also support the U.S. military with our developmental ammunition programs as we seek out and effectively execute upon new governmental-based opportunities. Our production processes focuses on safety, consistency, precision, and cleanliness. Each round is developed for consistency, velocity, accuracy, and repeatability. Each round is chamber gauged, a dimension inspection process, and inspected with quality control processes that meet or exceed Sporting Arms and Ammunition Manufacturers’ Institute (“SAAMI”) and Commission Internationale Permanente pour l’Epreuve des Armes à Feu Portatives (“CIP”) standards.

Our Growth Strategy

We intend to continue to enhance our position as a designer, producer, and marketer of ammunition products via our manufacturing and related sales operations, while simultaneously enhancing and embracing the data we have in GunBroker.com to allow us to see growing trends and demands in the U.S. customer base, and to adjust our business plans and strategies accordingly.

We believe that the shift in our operational strategy focusing on higher brass casing production and sales negatively impacted our sales in the year ended March 31, 2024, as compared to the year ended March 31, 2023.

Design, Produce, and Market Innovative, Distinctive, Performance-Driven, High-Quality Ammunition and Ammunition Components

We are focused on designing, producing, and marketing innovative, distinctive, performance-driven, high-quality products that appeal to retailers, manufacturers, and consumers that will enhance our users' shooting experiences. Our research and development activities continue to drive opportunity and market attractiveness for our brands. We balance our Research and Development ("R&D") prowess with best-in-class operational efficiencies and continue to drive our costs down through rigorous continuous improvement initiatives.

Continue to Strengthen Relationships with Channel Partners and Retailers.

We continue to strive to strengthen our relationships with our current distributors, specialty retailers, dealers, and OEM manufacturers. The success of our efforts depends on new caliber introduction, innovation in our operations, quality, performance of our products, attractiveness of our retail packaging, and the guarantees we bring to our user community through our customer support efforts.

Emphasis on Customer Satisfaction and Loyalty

We plan to continue to emphasize customer satisfaction and loyalty by offering innovative, distinctive, high-quality products on a timely basis and by offering effective customer service, training, and support for the user community. We regard the features, quality, and performance of our products as the most important components of our customer satisfaction and loyalty efforts.

Continuously Improving Operations

We continue our efforts to enhance our production and lean out our operations by increasing daily production quantities through equipment acquisition, shift expansion, process improvements, increased operational availability of our equipment, and increased overall efficiency. Since the opening in August 2022 of the Company's state-of-the-art manufacturing plant in Manitowoc, WI, it positioned AMMO, Inc. to be the leader in brass case supply to the OEM market and under the many brands we go to market under. The plant grants us the ability to increase capacity based upon the needs of the market and through further expansion of our casing and loading lines.

Products

We design, produce, and sell small caliber ammunition and components for commercial and military applications for a variety of calibers ranging from 25 auto to 50 caliber. We ship our ammunition in the form of cartridges (or rounds), and ammunition casings for pistol ammunition through large rifle ammunition. A cartridge consists of four components: a case made of brass, steel, or polymer that holds together all the other components of the cartridge; the primer, which is an explosive chemical compound that ignites the gunpowder when struck by the firing pin; the gun powder, which is a chemical mixture that burns rapidly and creates an expanding gas when ignited and pushes the bullet out the barrel; and the bullet, or projectile, usually containing lead that is fired through the barrel to strike the target.

STREAK VISUAL AMMUNITION™

STREAK VISUAL AMMUNITION™ enables shooters to see the path of the bullets. STREAK VISUAL AMMUNITION™ rounds utilize non-flammable phosphor material that produces a glow by the utilization of the light emitted during the round discharge to make STREAK VISUAL AMMUNITION™ glow. The luminescent material is applied only to the base of the projectile, making it visible only to the shooter and those within a 30-degree viewing window. As a result, the glow of STREAK VISUAL AMMUNITION™ is not visible to the target unlike conventional tracers, which we believe is important to the military and law enforcement. We refer to the technology used by our STREAK VISUAL AMMUNITION™ as one-way luminescent or O.W.L. Technology™. Unlike conventional tracer ammunition, STREAK VISUAL AMMUNITION™ rounds are not incendiary and do not utilize burning metals to generate light, thereby eliminating heat generation and making them safer for use in various environments and avoiding serious fire hazards. STREAK VISUAL AMMUNITION™ comes in 380 auto, 9 millimeter, 40 Smith& Wesson, 44 magnum, 45 long colt, and 38 special among other calibers.

We hold the exclusive worldwide sales and distribution rights for the patented O.W.L. Technology™ used by our STREAK VISUAL AMMUNITION™ and pay a royalty based on our product sales incorporating this technology. On October 13, 2020, the Company further expanded its patent portfolio as a result of the U.S. Patent and Trademark Office (“USPTO”)’s issuance of Patent No. 10,801,821 recognizing the Company’s development of both a protectable and cutting-edge process to mass-produce luminescent projectiles, as well as the luminescent projectiles manufactured as a result of the protected process.

Stelth Subsonic Ammunition

Stelth Subsonic Ammunition (“/stelTH/™”) is designed specifically for superior performance in suppressed firearms. Stelth ammunition finds applications in which silence is paramount, such as in tactical training, predator night hunts, and clandestine operations. The Stelth ammunition is produced to be a clean burning total metal jacket round to slow baffle corrosion and reduce lead emissions that collect in the suppressor body. Stelth ammunition comes in 9mm, 40 Smith & Wesson, and 45 Automatic Colt Pistol, 223, and 300 Blackout.

Jagemann Munition Components

Through our wholly owned subsidiary Jagemann Munitions Components (“JMC”), we offer ammunition casings for pistol and rifle ammunition. Jagemann Munitions Components is backed by decades of manufacturing experience that allows the production of high-quality pistol brass and rifle brass components. Borne from the automotive industry and refined over time to deliver durable and consistent sporting components, Jagemann Munitions Components has become one of the largest brass manufacturers in the country.

Marketing

We market our products and services to consumers through distributors, dealers, mass market, and specialty retailers. We maintain consumer-focused product marketing and promotional campaigns, which include print and digital advertising campaigns; social and electronic media; product demonstrations; point-of-sales materials; in-store training, and in-store retail merchandising. Our use of social media includes Instagram, Facebook, X (formerly known as “Twitter”), LinkedIn, and YouTube. We also utilize third-party endorsements, social influencers, and brand ambassadors.

Product Innovation and Development

The Company was founded on delivering new and innovative products, such as STREAK VISUAL AMMUNITION™ to the firearms industry. Since initiating operations in 2017, we have developed proprietary products for the commercial and military sectors. We continue to develop new product calibers and products to meet and create market demand. The core competency of our manufacturing facility lies in its ability to deep draw rifle cases. Our goal is to fill the capacity of our new Manitowoc facility with innovative products around this core competency. In our fiscal year ended March 31, 2025, we will be delivering on product calibers with high demand in premium segments of the market such as 6.5 Precision Rifle Cartridge (“PRC”), 7 millimeter PRC, 450 Bushmaster, 35 Whelen, 350 Legend, and 45-70 both in our AMMO, Inc. Signature lines as well as brass for OEM manufacturers. We expect that we and our competitors will continue to fight for shelf space at retail outlets and that, as our market transitions from high demand periods, we must introduce new product caliber designs to foster brand strength, market positioning, and loyalty. The targeted markets that we’ve expanded into encompass sport shooting enthusiasts, hunting-specific ammunition, self-defense ammunition, law enforcement and military agencies. We aim to further penetrate these sectors through product differentiation, focusing on our STREAK VISUAL AMMUNITION™, /stelTH/™, Signature-on-Target, and HUNT product lines, all of which offer higher profit margins relative to their selling price. We will continue to add talent and engage best in class resources to enable AMMO, Inc. to continue down this path.

Since the acquisition, we have evolved the GunBroker Marketplace to push best in class e-commerce standards. By streamlining customer service, we push proactive customer engagement based around outreach to the seller and buyer community. In March 2024, GunBroker went live with a multi-item cart and payment application to facilitate credit card processing empowering our buyer and sellers with a streamlined checkout process. This will enable GunBroker to facilitate cross selling and drive revenue for our marketplace community. We continue to develop listing processes and improve communication flow between buyers and sellers, while also optimizing the immense amount of market data. We currently use our platform data to present personalized marketing campaigns to the user base and will continue to evolve how we engage with our customer base. Marketing, analytics, and advertising programs have been instrumental in our success to date and we are continuing to build out our teams and structure for our aggressive go to market campaigns for this fiscal year.

Research and Development

We conduct research and development activities to enhance existing products and develop new products at our facilities in Manitowoc, WI, by utilizing our personnel and strategic relationships. We expense all costs associated with our research and development efforts through either our cost of goods sold, as they are performed by the same employees who produce our finished product, or through our general and administrative expenses if the product has not been brought to market.

GunBroker Marketplace researches and integrates advancements in search, document processing, database, and artificial intelligence technologies. Research and development investments continue to be made for enhanced security, data protection, customer service, improved site capacity, and system resiliency.

Suppliers

We purchase certain raw materials and components for our ammunition products, including brass, steel, or copper jackets; ammunition primers to ignite propellant; and projectiles. We believe that we have reliable sources of supply for all our raw material and component needs, but from time to time raw materials and components are subject to shortages and price increases. Most of our suppliers are U.S.-based and provide us these materials and components at competitive rates. We plan to continue to broaden our supplier base and secure multiple sources for all the raw materials and components that we require.

GunBroker continually evaluates partner relationships and integrations to strengthen and streamline communication and efficiency. Consolidation with best in class partners to strengthen relationships and generate cost savings by maximizing their product and service offerings.

Customers

We sell our products through distributors, “Big Box” retailers, manufacturers, specialty retailers, local ammunition stores, and shooting range operators. Our consumers include sport and recreational shooters, hunters, competitive shooters, individuals desiring home and personal protection, manufacturers, law enforcement and military agencies, and selected international markets. We distribute our products under six primary product lines: AMMO, Inc. Signature, STREAK VISUAL AMMUNITION™, /stElTH™, HUNT, Signature-on-Target, and Jagemann Munitions Components. Sales outside of the United States require licenses and approval from either the U.S. Department of Commerce or the U.S. State Department. This permits the Company to export and broker ammunition and other controlled items covered under ITAR.

GunBroker Marketplace is uniquely positioned to service the outdoor oriented customer. Traditionally our customers have been considered the buyers and sellers on the marketplace, but we are growing into servicing manufacturers, our sellers, and the industry with analytics, advertising and promotional content. We also support numerous regional chains, individuals, and small businesses.

Competition

The ammunition and ammunition casing industry is dominated by a small number of companies, a number of which are divisions of large public companies. We compete primarily on the quality, reliability, features, performance, brand awareness, and price of our products. Our primary competitors include Federal Premium Ammunition, Remington Arms, the Winchester Ammunition division of Olin Corporation, Hornady Manufacturing Company, and various smaller manufacturers and suppliers, including Black-Hills Ammunition, CBC Group, Fiocchi Ammunition, PMC, Rio Ammunition, and Wolf Ammunition.

Our GunBroker Marketplace competition comes in multiple formats including other online marketplaces, direct e-commerce, brick & mortar, big box retailers, national, regional, and local stores. Through our marketplace we have created a symbiotic relationship with these same businesses. As e-commerce evolves, retail store front competitors such as Sportsman’s Warehouse, Bass Pro Shops, Cabela’s, and Academy Sports have the ability to attract our customers through in-store pick up and no Federal Firearms License (“FFL”) transfer fees. Manufacturers with an e-commerce presence such as Palmetto State Armory, Ammunition Depot, Vista Outdoors, and Freedom Munitions have the ability to market their products aggressively with less margin impact through their direct-to-consumer model.

Human Capital

As of June 10, 2024, we had a total of 374 employees. Of these employees, 263 were engaged in manufacturing, 29 in sales, marketing and customer service, 33 in research and development, manufacturing engineering, and software engineering, and 49 in various corporate and administrative functions (information technology, accounting, executives, etc.). None of our employees are represented by a union in collective bargaining with us. We believe that our employee relations are good.

Our human capital proposition is centered around a team-oriented work environment that promotes a culture that fosters engagement, hard work, a desire to win, and accountability. At our core, we strive to attract, develop, and retain employees that want to be a part of a dynamic workforce centered around delivering new products and services to our passionate user base. We value diversity, engagement, and unique viewpoints that enable us to excel in the marketplace.

Seasonality

Our business has not exhibited a material degree of seasonality to date but as we move into more rifle production and strive to meet our customers’ projections and needs, seasonality will have a larger effect on our sales pipeline. In particular, our net sales could be moderately higher in our second and third fiscal quarters because of the fall hunting and holiday seasons.

Intellectual Property

We believe our tradenames, trademarks, and service marks are important factors in distinguishing our products. In addition, we regard our trade secrets, technological resources, knowhow, licensing arrangements, and endorsements as important competitive factors.

Under the terms of the 2017 merger between our wholly-owned subsidiary, AMMO Technologies Inc., an Arizona corporation (“ATI”) and Hallam, Inc. (“Hallam”), ATI succeeded to all of the assets of Hallam and assumed the liabilities of Hallam, which were none. The primary asset of Hallam 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 University of Louisiana at Lafayette (“ULL”). The license was formally amended and assigned to ATI pursuant to an Assignment and First Amendment to Exclusive License Agreement Assumption Agreement. Under the terms of the merger with Hallam, we, the sole shareholder of ATI, issued to Hallam’s two shareholders, 600,000 shares of our Common Stock, subject to restrictions, and payment of \$200,000. The first payment of \$100,000 to Hallam’s shareholders was paid on September 13, 2017, and the second payment of \$100,000 was paid on February 6, 2018.

We hold the exclusive worldwide sales and distribution rights for the patented O.W.L. Technology™ used by our STREAK VISUAL AMMUNITION™ via our license agreement with ULL. We pay ULL a royalty based on our product sales incorporating this patented technology. We have been using our O.W.L. Technology™ to compete for military contracts in part because we believe that the glow of STREAK VISUAL AMMUNITION™ not being visible to the target (which is unlike conventional tracers) is important to the military and law enforcement.

Such military use is allowed pursuant to that certain Amended and Restated Exclusive License Agreement between ATI and ULL, dated as of November 16, 2017 and effective as of January 1, 2018, as amended (the “License Agreement”). The License Agreement has been renewed twice and currently expires on January 1, 2026, and is renewable in the Company’s sole discretion for successive four-year periods provided the Company is not in breach of the License Agreement.

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 licensing agreement grants us the exclusive worldwide rights through April 12, 2027 to Mr. James’ image rights and all trademarks associated with him in connection with the marketing, promotion, advertising, sale, and commercial exploitation of Jesse James Branded Products. In addition, Mr. James agreed to make himself available for certain promotional activities and to promote Jesse James Branded Products through his own social media outlets. 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.

Through our acquisition of SW Kenetics, Inc. (“SWK”) in 2018, we acquired the rights to a patent for modular projectiles. We use this technology is used in connection with our AP and HAPI lines of ammunition.

Included in the acquisition of Jagemann Munitions Components we acquired customer relationships, intellectual property, and the use of a tradename. These intangible assets are used in the operation and production of our ammunition casing business through Jagemann Munition Components.

Regulatory Matters

The manufacture, sale, and purchase of ammunition are subject to extensive federal, state, local, and foreign governmental laws. We are also subject to the rules and regulations of the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives (“ATF”) and various state and international agencies that control the manufacture, export, import, distribution and sale of firearms, explosives, and ammunition. Such regulations may adversely affect demand for our products by imposing limitations that increase the costs or limit the availability of our products.

Our failure to comply with applicable rules and regulations may result in the limitation of our growth or business activities and could result in the revocation of licenses necessary for our business. Applicable laws and regulations provide for the following:

- require the licensing of all persons manufacturing, exporting, importing, or selling ammunition as a business;
- require serialization, labeling, and tracking of the acquisition and disposition of certain types of ammunition;
- regulate the interstate sale of certain ammunition;
- restrict or prohibit the ownership, use, or sale of specified categories of ammunition;
- require registries of so-called “ballistic images” of ammunition fired from new guns;
- govern the sale, export, and distribution of ammunition;
- regulate the use and storage of gun powder or other energetic materials;
- regulate the employment of personnel with certain criminal convictions;
- restrict access to ammunition manufacturing facilities for certain individuals from other countries or with criminal convictions; and
- require compliance with International Traffic in Arms Regulations.

The handling of our technical data and the international sale of our products may also be regulated by the U.S. Department of State and Department of Commerce. These agencies can impose civil and criminal penalties, including denying us from exporting our products, for failure to comply with applicable laws and regulations.

In addition, bills have been introduced in Congress to establish, and to consider the feasibility of establishing a nationwide database recording so-called “ballistic images” of ammunition fired from new guns. Should such a mandatory database be established, the cost to us, our distributors, and our customers could be significant, depending on the type of firearms and ballistic information included in the database. Bills have been introduced in Congress in the past several years that would affect the manufacture and sale of ammunition, including bills to regulate their manufacture, importation, and sale.

Our business, and the business of all producers and marketers of ammunition and firearms, is also subject to numerous federal, state, local, and foreign laws, regulations, and protocols. Applicable laws have the following effects:

- require the licensing of all persons manufacturing, exporting, importing, or selling firearms and ammunition as a business;
- require background checks for purchasers of firearms;
- impose waiting periods between the purchase of a firearm and the delivery of a firearm;
- prohibit the sale of firearms to certain persons, such as those below a certain age and persons with criminal records;
- regulate the use and storage of gun powder or other energetic materials;
- regulate our employment of personnel with criminal convictions; and
- restrict access to firearm manufacturing facilities for individuals from other countries or with criminal convictions.

Also, the export of our products is controlled by International Traffic in Arms Regulations, or “ITAR”, and Export Administration Regulations, or “EAR”. The ITAR implements the provisions of the Arms Export Control Act and is enforced by the U.S. Department of State. The EAR implements the provisions of the Export Administration Act and is enforced by the U.S. Department of Commerce. Among their many provisions, the ITAR and the EAR require a license application for the export of many of our products. In addition, the ITAR requires congressional approval for any firearms export application with a total value of \$1 million or higher. Further, because our manufacturing process includes certain toxic, flammable and explosive chemicals, we are subject to the Chemical Facility Anti-Terrorism Standards, as administered by the U.S. Department of Homeland Security, which require that we take additional reporting and security measures related to our manufacturing process.

We believe that existing federal, state, and local legislation relating to the regulation of firearms and ammunition have not had a material adverse effect on our sales of these products. However, the regulation of firearms and ammunition may become more restrictive in the future, and any such developments might have a material adverse effect on our business, operating results, financial condition, and cash flows. In addition, regulatory proposals, even if never enacted, may affect firearms or ammunition sales as a result of consumer perceptions.

Transactions taking place on the GunBroker site involving the lawful sale of firearms are facilitated from a listing and documentation standpoint by GunBroker. The transaction is consummated between a third-party buyer and seller and requires the direct involvement of an ATF FFL holder such as a gun shop or range that accepts receipt of the firearms and completes the transaction and delivery subject to confirmation of compliance with applicable federal and/or state laws.

Available Information

You can find reports on our company including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports on our website www.ammoinc.com under the “Investor Relations” heading. These reports are available free of charge and as soon as reasonably practicable after they have been filed with, or furnished to, the U.S. Securities and Exchange Commission (the “SEC”). We are providing the address of our website solely for the information of investors and the information on our website is not a part of or incorporated into this or any report that we file with the SEC.

ITEM 1A. RISK FACTORS

Purchasing our Common Stock or Series A Preferred Stock involves a high degree of risk. You should carefully consider the following risk factors, together with all of the information included in this Form 10-K Report, before you decide to purchase shares of our Common Stock or Series A Preferred Stock. We believe the risks and uncertainties described below are the most significant we face. Additional risks and uncertainties of which we are unaware, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, operating results, and financial condition could be materially and adversely affected. In that case, the trading price of our Common Stock or Series A Preferred Stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We have a limited operating history on which you can evaluate our company.

With the exception of GunBroker's approximate 25 year history operating as a private company preceding the merger, we have a limited operating history on which you can evaluate our company. Although the corporate entity has existed since 1990, we have only operated as an ammunition manufacturer since March 2017 and we acquired GunBroker in 2021. As a result, our business will be subject to many of the problems, expenses, delays, and risks inherent in the establishment of a new business enterprise.

Our performance is influenced by a variety of economic, social, and political factors.

Our performance is influenced by a variety of economic, social, and political factors. In the year ended March 31, 2024, we believe that general economic conditions and consumer spending patterns negatively impacted our operating results because consumers bought fewer discretionary items such as our products. These economic conditions included, but were not limited to, declines in consumer confidence, and increases in consumer debt levels. In times of economic uncertainty, consumers tend to defer expenditures for discretionary items, which affects demand for our products. Economic conditions also affect governmental political and budgetary policies. As a result, economic conditions also can have an adverse effect on the sale of our products to law enforcement, government, and military customers.

Political and other factors also can adversely affect our performance. Concerns about presidential, congressional, and state elections and legislature and policy shifts resulting from those elections can adversely affect the demand for our products. In addition, uncertainty surrounding the control of firearms, firearm products, and ammunition at the federal, state, and local level and heightened fears of terrorism and crime can adversely affect consumer demand for our products. Often, such concerns result in an increase in near-term consumer demand and subsequent softening of demand when such concerns subside.

Federal and state legislatures frequently consider legislation relating to the regulation of firearms, including amendment or repeal of existing legislation. Existing laws may also be affected by future judicial rulings and interpretations. If restrictive changes to legislation develop, we could find it difficult, expensive, or even impossible to comply with them, impeding new product development and distribution of existing products.

War, terrorism, other acts of violence, or natural, or manmade disasters, such as a global pandemic, may affect the markets in which the Company operates, the Company's customers, the Company's delivery of products and customer service, and could have a material adverse impact on our business, results of operations, or financial condition.

The Company's business and supply chain could be adversely affected by instability, disruption or destruction in a geographic region in which it operates, regardless of cause, including war, terrorism, riot, civil insurrection or social unrest, and natural or manmade disasters, including famine, food, fire, earthquake, storm or pandemic events, and spread of disease.

Such events may cause customers to suspend their decisions on using the Company's products and services, make it impossible to access some of our inventory, and give rise to sudden significant changes in regional and global economic conditions and cycles that could interfere with purchases of goods or services and commitments to develop new products and services. These events also pose significant risks to the Company's personnel and to physical facilities, transportation and operations, which could materially adversely affect the Company's financial results.

Any significant disruption to communications and travel, including travel restrictions and other potential protective quarantine measures against a pandemic by governmental agencies, could make it difficult for the Company to deliver goods services to its customers. War, riots, or other disasters may increase the need for our products and demand by our government and military and may make it more difficult to provide our products to other customers.

Worldwide economic and social instability could adversely affect our revenue, financial condition, or results of operations.

The health of the global economy, and the credit markets and the financial services industry in particular, as well as the stability of the social fabric of our society, affects our business and operating results. For example, the credit and financial markets may be adversely affected by the current conflict between Russia and Ukraine and measures taken in response thereto. If the credit markets are not favorable, we may be unable to raise additional financing when needed or on favorable terms. Our customers may experience financial difficulties or be unable to borrow money to fund their operations, which may adversely impact their ability to purchase our products or to pay for our products on a timely basis, if at all.

We are engaged in legal proceedings that could cause us to incur unforeseen expenses and could occupy a significant amount of our management's time and attention.

On April 30, 2023, Director and shareholder Steve Urvan filed suit in the Delaware Chancery Court against the Company, certain Directors, former directors, employees, former employees, and consultants, seeking rescission of the Company's acquisition of GunBroker and certain affiliated companies. Plaintiff Urvan's claims include rescission, misrepresentation, and fraud. The Company is currently in communications with its insurance carriers as concerns coverage (defense and indemnification), has engaged counsel and formal/legal service of process is being coordinated at this time. The Company and named defendants are in alignment and believe at this date that the claims are without merit and the Company has engaged Delaware Chancery Court litigation specialists to defend its interests in all respects in this case.

The claims made by Mr. Urvan and such other litigation or claims that may be made against the Company or its officers or directors, from time to time, could negatively affect our business, operations, or financial position. As we grow, we will likely see a rise in the number of litigation matters against us. These matters may include employment and labor claims, product liability, and other claims related to our products, as well as consumer and securities class actions, each of which are typically expensive to defend. Litigation disputes could cause us to incur unforeseen expenses and otherwise occupy a significant amount of our management's time and attention, any of which could negatively affect our business operations and financial position.

If we are not able to expand our e-commerce business, our future growth could be curtailed.

Consumers are increasingly purchasing products online. We have operated direct-to-consumer e-commerce stores to maintain an online presence with our end users. The future success of our online operations depends on our ability to use our marketing resources to communicate with existing and potential customers. We face competitive pressure to offer promotional discounts, which could impact our gross margin and increase our marketing expenses. We are limited, however, in our ability to fully respond to competitor price discounting because we cannot market our products at prices that may produce adverse relationships with our customers that operate brick and mortar locations as they may perceive themselves to be at a disadvantage based on lower e-commerce pricing to end consumers. There is no assurance that we will be able to successfully expand our e-commerce business to respond to shifting consumer traffic patterns and direct-to-consumer buying trends.

In addition, e-commerce and direct-to-consumer operations are subject to numerous risks, including implementing and maintaining appropriate technology to support business strategies, reliance on third-party computer hardware/software and service providers, data breaches, violations of state, federal or international laws, including those relating to online privacy, credit card fraud, telecommunication failures, electronic break-ins and similar disruptions, and disruption of Internet service. Our inability to adequately respond to these risks and uncertainties or to successfully maintain and expand our direct-to-consumer business may have an adverse impact on our business and operating results.

The GunBroker auction website facilitates the lawful sale of firearms, ammunition and accessories between listing sellers and interested buyers and includes the direct transactional involvement of FFLs regulated by the ATF. A change in applicable federal or state law and restrictions that prohibits GunBroker from providing its facilitative auction platform services would have a direct substantial financial impact on its operations that may potentially cause an adverse effect on the continuity of its operations.

If we are unable to protect our intellectual property, we may lose a competitive advantage or incur substantial litigation costs to protect our rights.

Our future success depends upon our proprietary technology. Our protective measures, including patent and trade secret protection, may prove inadequate to protect our proprietary rights. The right to stop others from misusing our trademarks, service marks, and patents in commerce depends to some extent on our ability to show evidence of enforcement of our rights against such misuse in commerce. Our efforts to stop improper use, if insufficient, may lead to loss of trademark and service mark rights, brand loyalty, and notoriety among our customers and prospective customers. The scope of any patent that we have or may obtain may not prevent others from developing and selling competing products. The validity and breadth of claims covered in technology patents involve complex legal and factual questions, and the resolution of such claims may be highly uncertain, and expensive. In addition, our patents may be held invalid upon challenge, or others may claim rights in or ownership of our patents.

We may be subject to intellectual property infringement claims, which could cause us to incur litigation costs and divert management attention from our business.

Any intellectual property infringement claims against us, with or without merit, could be costly and time-consuming to defend and divert our management's attention from our business. If our products were found to infringe a third party's proprietary rights, we could be required to enter into costly royalty or licensing agreements to be able to sell our products. Royalty and licensing agreements, if required, may not be available on terms acceptable to us or at all.

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

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

A failure of our information technology systems, or an interruption in their operation due to internal or external factors including cyber-attacks, could have a material adverse effect on our business, financial condition or results of operations.

Our operations depend on our ability to protect our information systems, computer equipment, and information databases from systems failures. We rely on our information technology systems generally to manage the day-to-day operations of our business, operate elements of our manufacturing facility, manage relationships with our customers, fulfill customer orders, and maintain our financial and accounting records. Failure of our information technology systems could be caused by internal or external events, such as incursions by intruders or hackers, computer viruses, cyber-attacks, failures in hardware or software, or power or telecommunication fluctuations or failures. The failure of our information technology systems to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous adverse consequences, including reduced effectiveness and efficiency of operations, increased costs, or loss of important information, any of which could have a material adverse effect on our business, operating results, and financial condition. Any technology and information security processes and disaster recovery plans we use to mitigate our risk to these vulnerabilities may not be adequate to ensure that our operations will not be disrupted should such an event occur.

Risks Related to Our Products and Our Dependence on Third Parties

Our success depends upon our ability to introduce new products that match consumer preferences.

Our success depends upon our ability to introduce new products that match consumer preferences. Our efforts to introduce new products into the market may not be successful, and any new products that we introduce may not result in customer or market acceptance. We develop new products that we believe will match consumer preferences. The development of a new product is a lengthy and costly process and may not result in a successful product. Failure to develop new products that are attractive to consumers could decrease our sales, operating margins, and market share and could adversely affect our business, operating results, and financial condition.

We depend on the sale of our ammunition products.

We manufacture ammunition and ammunition casings for sale to a wide variety of consumers, including gun enthusiasts, collectors, hunters, sportsmen, competitive shooters, individuals desiring home and personal protection, manufacturers, law enforcement and security agencies and officers in the United States and throughout the world. The sale of ammunition and ammunition components is influenced by the sale and usage of firearms. Sales of firearms are influenced by a variety of economic, social, and political factors, which may result in volatile sales. Ammunition sales represented a substantial amount of our net sales for the fiscal years ended March 31, 2024, 2023, 2022 and 2021. If ammunition sales decline, our financial results could be adversely impacted and the market price of our Common Stock could decline.

Our manufacturing facilities are critical to our success.

Our manufacturing operations are currently based out of two facilities in Manitowoc, WI and are critical to our success, as we currently produce all of our products at these facilities. These facilities also house our principal research, development, engineering, and design functions.

Any event that causes a disruption to the operation of these facilities for even a relatively short period of time would adversely affect our ability to produce and ship our products and to provide service to our customers. We make certain changes in our manufacturing operations from time to time to enhance the facilities and associated equipment and systems and to introduce certain efficiencies in manufacturing and other processes to produce our products in a more efficient and cost-effective manner. We have incurred significant capital and other expenditures with respect to our \$26 million manufacturing plant, but we may not be successful in continuing to improve efficiencies.

Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our results of operations.

The inability to obtain sufficient quantities of raw materials and components, including brass, steel, or copper jackets, primers, propellant, and projectiles necessary for the production of our products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales or orders could adversely impact our operating results. Many of the materials used in the production of our products are available only from a limited number of suppliers. We do not have long-term supply contracts with any suppliers. As a result, we could be subject to increased costs, supply interruptions, and difficulties in obtaining raw materials and components. As global conflicts escalate nitrocellulose and propellant production becomes in higher demand, and as a result in these events could constrain U.S. production for propellant destined for the commercial markets, which could have an unforeseen impact on the U.S. firearm and ammunition market.

Our reliance on third-party suppliers for various raw materials and components for our products exposes us to volatility in the availability, quality, and price of these raw materials and components. Our orders with certain of our suppliers may represent a very small portion of their total orders. As a result, they may not give priority to our business, leading to potential delays in or cancellation of our orders. A disruption in deliveries from our third-party suppliers, capacity constraints, production disruptions, price increases, or decreased availability of raw materials or commodities could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. Quality issues experienced by third party suppliers can also adversely affect the quality and effectiveness of our products and result in liability and reputational harm.

We rely on third-party suppliers for most of our manufacturing equipment.

We also rely on third-party suppliers for most of the manufacturing equipment necessary to produce our products. The failure of suppliers to supply manufacturing equipment in a timely manner or on commercially reasonable terms could delay our plans to expand our business and otherwise disrupt our production schedules and increase our manufacturing costs. Our orders with certain of our suppliers may represent a very small portion of their total orders. As a result, they may not give priority to our business, leading to potential delays in or cancellation of our orders. If any single-source supplier were to fail to supply our needs on a timely basis or cease providing us with manufacturing equipment or components, we would be required to locate and contract with substitute suppliers. We may have difficulty identifying a substitute supplier in a timely manner and on commercially reasonable terms. If this were to occur, our business would be harmed. In addition, adverse economic conditions, such as recent supply chain disruptions and labor shortages and persistent inflation, have impacted, and may continue to adversely impact our suppliers' ability to provide us with materials and components, which may negatively impact our business. These economic conditions make it more difficult for us to accurately forecast and plan our future business activities.

Our revenue depends primarily on sales by various retailers and distributors, some of which account for a significant portion of our sales.

Our loaded ammunition and munition components revenue depends on our sales through various leading national and regional retailers, local specialty firearms stores, and online merchants. The U.S. retail industry serving the outdoor recreation market has become relatively concentrated. Our sales could become increasingly dependent on purchases by several large retail customers. Consolidation in the retail industry could also adversely affect our business. If our sales were to become increasingly dependent on business with several large retailers, we could be adversely affected by the loss or a significant decline in sales to one or more of these customers. In addition, our dependence on a smaller group of retailers could result in their increased bargaining position and pressures on the prices we charge.

The loss of any one or more of our large or “Big Box” retail customers or significant or numerous cancellations, reductions, delays in purchases or changes in business practices by our large or “Big Box” retail customers could have an adverse effect on our business, operating results, and financial condition.

These sales channels involve a number of special risks, including the following:

- we may be unable to secure and maintain favorable relationships with retailers and distributors;
- we may be unable to control the timing of delivery of our products to end-user consumers;
- our retailers and distributors are not subject to minimum sales requirements or any obligation to market our products to their customers;
- our retailers and distributors may terminate their relationships with us at any time;
- our retailers and distributors market and distribute competing products; and
- our retailers may experience closure due to disease outbreaks or other natural or manmade disasters in a particular region.

Although the Company did not have any customers that comprised more than 10% of total revenues for the year ended March 31, 2024, one customer accounted for approximately 12% of our revenues for the year ended March 31, 2023 and two customers accounted for approximately 18% of our revenues for the year ended March 31, 2022. Although we intend to expand our customer base, our revenue would likely decline if we lost any major customers or if one of these sizable customers were to significantly reduce its orders for any reason. Because our sales are made by means of standard purchase orders rather than long-term contracts, we cannot assure you that our customers will continue to purchase our products at current levels, or at all.

In addition, periods of sluggish economies and consumer uncertainty regarding future economic prospects in our key markets can have an adverse effect on the financial health of our customers, which may in turn have a material adverse effect on our business, operating results, and financial condition.

General inflation, including rising energy prices, and interest rates and wages could have negative impacts on our business by increasing our operating costs and our borrowing costs as well as decreasing the capital available for our customers to purchase our products. Recently, general inflation in the United States, Europe, and other geographies has risen to levels not experienced in recent decades. Additionally, inflation and price volatility may cause our customers to reduce use of our products would harm our business operations and financial position.

We extend credit to our customers for periods of varying duration based on an assessment of the customer’s financial condition, generally without requiring collateral, which increases our exposure to the risk of uncollectable receivables. In addition, we face increased risk of order reduction or cancellation when dealing with financially ailing retailers or retailers struggling with economic uncertainty. We may reduce our level of business with customers and distributors experiencing financial difficulties and may not be able to replace that business with other customers, which could have a material adverse effect on our business, operating results, and financial condition.

Our gross margins depend upon our sales mix.

Our gross margin is higher when our sales mix is skewed toward our higher-margin proprietary product lines versus a lower contribution from mid-market ammunition that we also manufacture. If our actual sales mix results in a lower overall percentage from our proprietary lines, our gross margins will be reduced, which would negatively affect our results of operations.

We face intense competition that could result in our losing or failing to gain market share and suffering reduced sales.

We operate in intensely competitive markets that are characterized by price erosion and competition from major domestic and international companies. Competition in the markets in which we operate is based on a number of factors, including price, quality, product innovation, performance, reliability, styling, product features, and warranties, and sales and marketing programs. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share.

Our competitors may have greater market recognition, larger customer bases, long-term government contracts, and substantially greater financial, technical, marketing, distribution, and other resources than we do and that afford them competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, to invest more funds in intellectual property and product development, to negotiate lower prices for raw materials and components, to deliver competitive products at lower prices, and to introduce new products and respond to consumer requirements more quickly than we can.

Our competitors could introduce products with superior features at lower prices than our products and could also bundle existing or new products with other more established products to compete with us. Certain of our competitors may be willing to reduce prices and accept lower profit margins to compete with us. Our competitors could also gain market share by acquiring or forming strategic alliances with other competitors.

Finally, we may face additional sources of competition in the future because new distribution methods offered by the Internet and electronic commerce have removed many of the barriers to entry historically faced by start-up companies. Retailers also demand that suppliers reduce their prices on products, which could lead to lower margins. Any of the foregoing effects could cause our sales to decline, which would harm our financial position and results of operations.

Our ability to compete successfully depends on a number of factors, both within and outside our control. These factors include the following:

- our success in developing, producing, marketing, and successfully selling new products;
- our ability to address the needs of our consumer customers;
- the pricing, quality, performance, and reliability of our products;
- the quality of our customer service;
- the efficiency of our production; and
- product or technology introductions by our competitors.

Because we believe technological and functional distinctions among competing products in our markets are perceived by many end-user consumers to be relatively modest, effectiveness in marketing and manufacturing are particularly important competitive factors in our business.

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

Because many of our products are used for seasonal outdoor sporting activities, our operating results may be significantly impacted by unseasonable weather conditions. Accordingly, our operating results could suffer when weather patterns do not conform to seasonal norms.

Shipments of ammunition for hunting are highest during the months of June through September to meet consumer demand for the fall hunting season and holidays. The seasonality of our sales may change in the future. Seasonal variations in our operating results may reduce our cash on hand, increase our inventory levels, and extend our accounts receivable collection periods. This in turn may cause us to increase our debt levels and interest expense to fund our working capital requirements.

We manufacture and sell products that create exposure to potential product liability, warranty liability, or personal injury claims and litigation.

Our products are used in activities and situations that involve risk of personal injury and death. Our products expose us to potential product liability, warranty liability, and personal injury claims and litigation relating to the use or misuse of our products, including allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product or activities associated with the product, negligence, and strict liability. If successful, any such claims could have a material adverse effect on our business, operating results, and financial condition. Defects in our products may result in a loss of sales, recall expenses, delay in market acceptance, and damage to our reputation and increased warranty costs, which could have a material adverse effect on our business, operating results, and financial condition. Although we maintain product liability insurance in amounts that we believe are reasonable, we may not be able to maintain such insurance on acceptable terms, if at all, in the future and product liability claims may exceed the amount of insurance coverage or may not be covered by our insurance policies. In addition, our reputation may be adversely affected by such claims, whether or not successful, including potential negative publicity about our products.

Our business is highly dependent upon our brand recognition and reputation, and the failure to maintain or enhance our brand recognition or reputation would likely have a material adverse effect on our business.

Our brand recognition and reputation are critical aspects of our business. We believe that maintaining and further enhancing our brands, particularly our STREAK VISUAL AMMUNITION™ brands, and our reputation are critical to retaining existing customers and attracting new customers. We also believe that the importance of our brand recognition and reputation will continue to increase as competition in our markets continues to develop.

We anticipate that our advertising, marketing, and promotional efforts will increase in the foreseeable future as we continue to seek to enhance our brands and consumer demand for our products. Historically, we have relied on print and electronic media advertising to increase consumer awareness of our brands to increase purchasing intent and conversation. We anticipate that we will increasingly rely on other forms of media advertising, including social media and e-marketing. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our advertising, promotion, public relations, and marketing programs. These brand promotion activities may not yield increased revenue and the efficacy of these activities will depend on a number of factors, including our ability to do the following:

- determine the appropriate creative message and media mix for advertising, marketing, and promotional expenditures;
- select the right markets, media, and specific media vehicles in which to advertise;
- identify the most effective and efficient level of spending in each market, media, and specific media vehicle; and
- effectively manage marketing costs, including creative and media expenses, to maintain acceptable customer acquisition costs.

In addition, certain of our current or future products may benefit from endorsements and support from particular sportsmen, athletes, or other celebrities, and those products and brands may become personally associated with those individuals. As a result, sales of the endorsed products could be materially and adversely affected if any of those individuals' images, reputations, or popularity were to be negatively impacted.

Increases in the pricing of one or more of our marketing and advertising channels could increase our marketing and advertising expenses or cause us to choose less expensive but possibly less effective marketing and advertising channels. If we implement new marketing and advertising strategies, we may incur significantly higher costs than our current channels, which in turn could adversely affect our operating results. Implementing new marketing and advertising strategies also could increase the risk of devoting significant capital and other resources to endeavors that do not prove to be cost effective. We also may incur marketing and advertising expenses significantly in advance of the time we anticipate recognizing revenue associated with such expenses and our marketing and advertising expenditures may not generate sufficient levels of brand awareness and conversation or result in increased revenue. Even if our marketing and advertising expenses result in increased sales, the increase might not offset our related expenditures. If we are unable to maintain our marketing and advertising channels on cost-effective terms or replace or supplement existing marketing and advertising channels with similarly or more effective channels, our marketing and advertising expenses could increase substantially, our customer base could be adversely affected, and our business, operating results, financial condition, and reputation could suffer.

A portion of our revenue is contingent on an exclusive license agreement with the University of Louisiana at Lafayette.

A significant portion of our revenue is attributable to the sale of our STREAK VISUAL AMMUNITIONTM. The manufacturing of our Streak products relies, in part, on a patent that is held by ULL. We have an exclusive license to use the licensed technology, derivative and related technology worldwide. We may renew this license agreement for successive four-year periods provided we are in compliance with the agreement. If we breach the license agreement, the licensor may terminate the agreement and if we fail to renew the license, we may be unable to use the technology, which, in either case, could significantly harm our results of operations, financial position, and prospects.

Excess inventory can lead to write-downs, impacting our financial statements and overall company performance.

Excess inventory can become obsolete, damaged, or unsellable over time. If the market value of our excess inventory, primarily consisting of primers, falls below its book value (the historical cost recorded on the balance sheet), we would be required to write-down the value of that inventory. Such a write-down would reduce the inventory balance, reflecting the impairment while still accounting for the remaining sellable inventory. The impact of excess inventory on our financial statements would include the following:

- For the income statement, when an adjustment entry removes the excess inventory, it reduces the closing inventory and increases the cost of goods sold;
- For the balance sheet, it is directly impacted by write-downs lowering the recorded value of inventory; and
- For the statement of cash flows, excess inventory ties up cash and affects cash flow. Write-downs release some of that tied-up capital that adjusts our net income and impacting the company's future cash flows.

Regulatory Risks

We are subject to extensive regulation and could incur fines, penalties and other costs and liabilities under such requirements.

Like many other manufacturers and distributors of consumer products, we are required to comply with a wide variety of laws, rules, and regulations, including those relating to labor, employment, the environment, the export and import of our products, and taxation. These laws, rules, and regulations currently impose significant compliance requirements on our business, and more restrictive laws, rules and regulations may be adopted in the future.

Our operations are subject to a variety of laws and regulations relating to environmental protection, including those governing the discharge, treatment, storage, transportation, remediation, and disposal of certain materials and wastes, and restoration of damages to the environment, and health and safety matters. We could incur substantial costs, including remediation costs, resource restoration costs, fines, penalties, and third-party property damage or personal injury claims as a result of liabilities under or violations of such laws and regulations or the permits required thereunder. While environmental laws and regulations have not had a material adverse effect on our business, operating results, financial condition, the ultimate cost of environmental liabilities is difficult to accurately predict and we could incur material additional costs as a result of requirements or obligations imposed or liabilities identified in the future.

As a manufacturer and distributor of consumer products, we are subject to the Consumer Products Safety Act, which empowers the Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Products Safety Commission could require us to repurchase or recall one or more of our products. In addition, laws regulating certain consumer products exist in some cities and states, and in other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future. Any repurchase or recall of our products could be costly to us and could damage our reputation. If we were required to remove, or we voluntarily removed, our products from the market, our reputation could be tarnished, and we could have large quantities of finished products that we are unable to sell. We are also subject to the rules and regulations of the ATF. If we fail to comply with ATF rules and regulations, the ATF may limit our growth or business activities, levy fines against or revoke our license to do business. Our business, and the business of all producers and marketers of ammunition and firearms, is also subject to numerous federal, state, local, and foreign laws, regulations, and protocols.

Several states currently have laws in effect that are similar to, and, in certain cases, more restrictive than, these federal laws. Compliance with all of these regulations is costly and time-consuming. Any violation of any of these regulations could cause us to incur fines and penalties, may also lead to restrictions on our ability to manufacture and sell our products and services and to import or export the products we sell and may otherwise harm our business.

Changes in government policies and firearms legislation could adversely affect our financial results.

The sale, purchase, ownership, and use of firearms are subject to numerous and varied federal, state, and local governmental regulations. Federal laws

governing firearms include the National Firearms Act, the Federal Firearms Act, the Arms Export Control Act, and the Gun Control Act of 1968. These laws generally govern the manufacture, import, export, sale, and possession of firearms and ammunition.

Currently, the federal legislature and several state legislatures are considering additional legislation relating to the regulation of firearms and ammunition. These proposed bills are extremely varied. If enacted, such legislation could effectively ban or severely limit the sale of affected firearms and ammunition. In addition, if such restrictions are enacted and are incongruent, we could find it difficult, expensive, or even practically impossible to comply with them, which could impede new product development and the distribution of existing products. We cannot assure you that the regulation of our business activities will not become more restrictive in the future and that any such restriction will not have a material adverse effect on our business.

Any adverse change to the interpretations of the Second Amendment (Right to Bear Arms) could impact our ability to conduct business by restricting the ownership and use of firearms in the United States.

Risks Related to our Common Stock

If we fail to comply with the rules of the Nasdaq Stock Market for continued listing or other requirements, our shares may be delisted.

Our Common Stock is listed on the Nasdaq Stock Market (“Nasdaq”) under the symbol “POWW.” If we fail to comply with Nasdaq’s rules for continued listing, including, without limitation, minimum market capitalization and other requirements, Nasdaq may take steps to delist our shares. Failure to maintain our Nasdaq listing would make it more difficult for shareholders to sell our Common Stock and more difficult to obtain accurate price quotations on our Common Stock. The delisting of our shares could have an adverse effect on the market price of our Common Stock. Our ability to issue additional securities for financing or other purposes, or otherwise to arrange for any financing we may need in the future, may also be materially and adversely affected if our Common Stock is not traded on a national securities exchange.

The exercise of warrants, and issuance of incentive stock grants may have a dilutive effect on our stock, and negatively impact the market price of our Common Stock.

As of June 10, 2024, we had outstanding warrants to purchase 1,664,555 shares of our Common Stock with a weighted average exercise price of \$2.15. As of June 10, 2024, there were options to purchase 175,000 shares of Common Stock outstanding and 2,303,159 shares of Common Stock are reserved for future issuance under the Ammo, Inc. 2017 Equity Incentive Plan. We may in the future increase the number of shares available under the plan or adopt a new equity incentive plan pursuant to which we may issue additional shares of our common stock. We expect to be able to grant stock options, restricted stock, restricted stock units, stock appreciation rights, bonus stocks, and performance awards under our existing equity incentive plan and any similar plans that we adopt in the future.

To the extent that any of the outstanding warrants and outstanding and future options are exercised, our current stockholders will experience dilution with respect to their current holdings of our Common Stock. For the life of such warrants and options, the holders will have the opportunity to profit from a rise in the price of the Common Stock with a resulting dilution in the interest of the other holders of Common Stock. Further, the existence of such warrants and options may adversely affect the market price of our Common Stock.

Our management has concluded that we have material weaknesses in our internal control over financial reporting and that our disclosure controls and procedures are not effective. If we fail to develop or maintain an effective system of internal control, we may not be able to accurately report our financial results or prevent financial fraud. As a result, current and potential stockholders could lose confidence in our financial reporting.

As a public company, we are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”). Section 404 requires us to include management’s assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year in our Annual Report on Form 10-K. This report must also include disclosure of any material weaknesses in internal control over financial reporting that we have identified.

During the audit of our financial statements for the year ended March 31, 2024, our management identified material weaknesses in our internal control over financial reporting, as described in “Item 9 Controls and Procedures - Management’s Annual Report on Internal Control Over Financial Reporting.”

These material weaknesses, if not remediated, create an increased risk of misstatement of the Company’s financial results, which, if material, may require future restatement thereof. A failure to implement improved internal control over financial reporting, or difficulties encountered in their implementation or execution, could cause future delays in our reporting obligations, and could have a negative effect on us and the trading price of our Common Stock. If these weaknesses and inadequate disclosure controls and procedures continue, investors could lose confidence in the accuracy and completeness of our financial reports and other disclosures.

Effective internal control over financial reporting and related controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we could be subject to regulatory action or other litigation and our business and operating results could be harmed.

General Risk Factors

Our operating results may experience significant fluctuations.

Many factors can contribute to significant fluctuations in our results of operations. These factors include the following:

- the cyclical nature of the markets we serve;
- the timing and size of new orders;
- the cancellation of existing orders;
- the volume of orders relative to our capacity;
- product introductions and market acceptance of new products or new generations of products;
- timing of expenses in anticipation of future orders;
- changes in product mix;
- availability of production capacity;
- changes in cost and availability of labor and raw materials;
- timely delivery of products to customers;
- pricing and availability of competitive products;
- new product introduction costs;
- changes in the amount or timing of operating expenses;
- introduction of new technologies into the markets we serve;
- pressures on reducing selling prices;
- excess inventory levels;
- our success in serving new markets;
- adverse publicity regarding the safety, performance, and use of our products;
- the institution and adverse outcome of any litigation;
- political, economic, or regulatory developments;
- changes in economic conditions; and
- natural and manmade disasters, including health emergencies such as the recent COVID-19 pandemic.

As a result of these and other factors, we believe that period-to-period comparisons of our results of operations may not be meaningful in the short term, and our performance in a particular period may not be indicative of our performance in any future period.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

In the future, we may require additional capital to fund the planned expansion of our business and to respond to business opportunities, challenges, potential acquisitions, or unforeseen circumstances. We could encounter unforeseen difficulties that may deplete our capital resources rapidly, which could require us to seek additional financing in the near future. The timing and amount of any additional financing that is required to continue the expansion of our business and the marketing of our products will depend on our ability to improve our operating results and other factors. We may not be able to secure additional debt or equity financing on a timely basis or on favorable terms, or at all. Further, such financing, if obtained, could result in substantial dilution of the equity interests of existing stockholders. If we are unable to secure any necessary additional financing, we may need to delay expansion plans, conserve cash, and reduce operating expenses. There is no assurance that any additional financing will be sufficient, that the financing will be available on terms favorable to us or to existing stockholders and at such times as required, or that we will be able to obtain the additional financing required for the continued operation and growth of our business. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. If we raise additional funds through further issuances of equity, convertible debt securities, or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our Common Stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited.

Our charter documents and Delaware law could make it more difficult for a third party to acquire us and discourage a takeover.

Our certificate of incorporation, bylaws, and Delaware law contain certain provisions that may have the effect of deterring or discouraging, among other things, a non-negotiated tender or exchange offer for shares of Common Stock, a proxy contest for control of our company, the assumption of control of our company by a holder of a large block of Common Stock, and the removal of the management of our company. Such provisions also may have the effect of deterring or discouraging a transaction which might otherwise be beneficial to stockholders. Our certificate of incorporation also authorizes our Board of Directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of Common Stock. Delaware law also imposes conditions on certain business combination transactions with “interested stockholders.” Further, our Bylaws authorize our Board of Directors to fill vacancies on the Board, including as a result of newly created directorships. A majority of the remaining directors may elect a successor to fill any vacancies or newly created directorships. Such provisions could limit the price that investors might be willing to pay in the future for shares of our Common Stock and impede the ability of the stockholders to replace management.

The elimination of monetary liability against our directors under Delaware law pursuant to our certificate of incorporation and the existence of indemnification rights to our directors and officers under Delaware law and our certificate of incorporation and bylaws, may result in substantial expenditures by us and may discourage lawsuits against our directors, officers, and employees. We also entered into contractual indemnification obligations under employment agreements with our executive officers. The foregoing indemnification obligations could result in our incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against our directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and our stockholders.

Our certification of incorporation designates the Court of Chancery in the State of Delaware as the sole and exclusive forum for actions or proceedings that may be initiated by our stockholders, which could discourage claims or limit stockholders' ability to make a claim against the Company, our directors, officers, and employees.

Our certificate of incorporation states that unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware shall be the sole and exclusive forum for any stockholder (including a beneficial) to bring (i) any derivative action or proceeding brought on behalf of the Company, (ii) an action asserting a claim of breach of fiduciary duty owed by any director, officer, or other employee of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim against the Company, its directors, officers, or employees arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws, or (iv) any action asserting a claim against the Company, its directors, officers, or employees governed by the internal affairs doctrine, except for, as to each of (i) through (iv) above, any claim as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within 10 days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or for which the Court of Chancery does not have subject matter jurisdiction.

These exclusive forum provisions do not apply to claims under the Securities Act or the Exchange Act. The exclusive forum provision may discourage claims or limit stockholders' ability to submit claims in a judicial forum that they find favorable and may create additional costs as a result. If a court were to determine the exclusive forum provision to be inapplicable and unenforceable in an action, we may incur additional costs in conjunction with our efforts to resolve the dispute in an alternative jurisdiction, which could have a negative impact on our results of operations.

Risks Related to our Series A Preferred Stock

The Series A Preferred Stock ranks junior to all of our indebtedness and other liabilities.

In the event of our bankruptcy, liquidation, dissolution or winding-up of our affairs, holders of the Series A Preferred Stock will be entitled to receive any of our assets remaining only after all of our indebtedness and other liabilities have been paid. The rights of holders of the Series A Preferred Stock to participate in the distribution of our assets will rank junior to the prior claims of our current and future creditors and any future series or class of preferred stock we may issue that ranks senior to the Series A Preferred Stock. Also, the Series A Preferred Stock effectively ranks junior to all existing and future indebtedness and to the indebtedness and other liabilities of our existing subsidiaries and any future subsidiaries. Our existing subsidiaries are, and future subsidiaries would be, separate legal entities and have no legal obligation to pay any amounts to us in respect of dividends due on the Series A Preferred Stock. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient assets to pay amounts due on any or all of the Series A Preferred Stock then outstanding. We have incurred and may in the future incur substantial amounts of debt and other obligations that will rank senior to the Series A Preferred Stock. At March 31, 2024, our total liabilities equaled approximately \$43.3 million.

Certain of our existing or future debt instruments may restrict the authorization, payment or setting apart of dividends on the Series A Preferred Stock. Also, future offerings of debt or senior equity securities may adversely affect the market price of the Series A Preferred Stock. If we decide to issue debt or senior equity securities in the future, it is possible that these securities will be governed by an indenture or other instruments containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of the Series A Preferred Stock and may result in dilution to owners of the Series A Preferred Stock. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. The holders of the Series A Preferred Stock will bear the risk of our future offerings, which may reduce the market price of the Series A Preferred Stock and will dilute the value of their holdings in us.

The trading market for the Series A preferred stock may not provide investors with adequate liquidity.

The Series A Preferred Stock is listed on Nasdaq under the symbol “POWWP.” We cannot assure you that holders of the Series A Preferred Stock will be able to sell their shares at favorable prices or at all. The difference between bid and ask prices in any secondary market for the Series A Preferred Stock could be substantial. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Series A Preferred Stock, and holders of the Series A Preferred Stock may be required to bear the financial risks of an investment in the Series A Preferred Stock for an indefinite period of time.

We may issue additional shares of Series A Preferred Stock and additional series of preferred stock that rank on parity with the Series A Preferred Stock as to dividend rights, rights upon liquidation or voting rights.

We are allowed to issue additional shares of Series A Preferred Stock and additional series of preferred stock that would rank junior to the Series A Preferred Stock as to dividend payments and rights upon our liquidation, dissolution or winding up of our affairs pursuant to our certificate of incorporation and the certificate of designations relating to the Series A Preferred Stock without any vote of the holders of the Series A Preferred Stock. The issuance of additional shares of Series A Preferred Stock and additional series of preferred stock that have been authorized pursuant to our certificate of incorporation and the certificate of designations could have the effect of reducing the amounts available to the Series A Preferred Stock upon our liquidation or dissolution or the winding up of our affairs. It also may reduce dividend payments on the Series A Preferred Stock if we do not have sufficient funds to pay dividends on all Series A Preferred Stock outstanding and other classes or series of stock with greater or equal priority with respect to dividends.

Also, although holders of Series A Preferred Stock are entitled to limited voting rights, with respect to the circumstances under which the holders of Series A Preferred Stock are entitled to vote, the Series A Preferred Stock votes separately as a class along with all other series of our preferred stock that we may issue upon which like voting rights have been conferred and are exercisable. As a result, the voting rights of holders of Series A Preferred Stock may be significantly diluted, and the holders of such other series of preferred stock that we may issue may be able to control or significantly influence the outcome of any vote.

Future issuances and sales of senior or pari passu preferred stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for the Series A Preferred Stock and our Common Stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

Market interest rates may materially and adversely affect the value of the Series A Preferred Stock.

One of the factors that influences the market price of the Series A Preferred Stock is the dividend yield on the Series A Preferred Stock (as a percentage of the market price of the Series A Preferred Stock) relative to market interest rates. An increase in market interest rates may lead prospective purchasers of the Series A Preferred Stock to expect a higher dividend yield (and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for dividend payments). Thus, higher market interest rates could cause the market price of the Series A Preferred Stock to materially decrease.

We may not be able to pay dividends on the Series A Preferred Stock if we have insufficient cash to make dividend payments.

Our ability to pay cash dividends on the Series A Preferred Stock requires us to have either net profits or positive net assets (total assets less total liabilities) over our capital, to be able to pay our debts as they become due in the usual course of business. Further, even if we meet this criteria, we still may not have sufficient cash to pay dividends on the Series A Preferred Stock. Our ability to pay dividends may be impaired if any of the risks described in this report were to occur. Also, payment of our dividends depends upon our financial condition and other factors as our Board of Directors may deem relevant from time to time. We cannot assure you that our businesses will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our preferred stock, including the Series A Preferred Stock, to pay our indebtedness or to fund our other liquidity needs.

Dividends or other payments with respect to the Series A Preferred Stock may be subject to withholding taxes in circumstances where we are not obliged to make gross up payments, and this could result in holders receiving less than expected in such circumstances.

In the event of certain changes to current tax law that require tax to be withheld from dividends or other payments on the Series A Preferred Stock, we are not required to make gross up payments in respect of such taxes. This would result in holders of Series A Preferred Stock receiving less than expected and could materially adversely affect the return on your investment.

Our Series A Preferred Stock has not been rated.

We have not sought to obtain a rating for the Series A Preferred Stock. No assurance can be given, however, that one or more rating agencies might not independently determine to issue such a rating or that such a rating, if issued, would not adversely affect the market price of the Series A Preferred Stock. Also, we may elect in the future to obtain a rating for the Series A Preferred Stock, which could adversely affect the market price of the Series A Preferred Stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward, placed on a watch list, or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision, placing on a watch list or withdrawal of a rating could have an adverse effect on the market price of the Series A Preferred Stock.

We may redeem the Series A Preferred Stock.

On or after May 18, 2026, we may, at our option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time. Also, upon the occurrence of a Change of Control (as defined in the certificate of designations with respect to the Series A Preferred Stock), we may, at our option, redeem the Series A Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred. We may have an incentive to redeem the Series A Preferred Stock voluntarily if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the dividend on the Series A Preferred Stock. If we redeem the Series A Preferred Stock, then from and after the redemption date, dividends will cease to accrue on shares of Series A Preferred Stock, the shares of Series A Preferred Stock will no longer be deemed outstanding and all rights as a holder of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

The market price of the Series A Preferred Stock could be substantially affected by various factors.

The market price of the Series A Preferred Stock depends on many factors, which may change from time to time, including:

- prevailing interest rates, increases in which may have an adverse effect on the market price of the Series A Preferred Stock;
- trading prices of similar securities;
- our history of timely dividend payments;
- the annual yield from dividends on the Series A Preferred Stock as compared to yields on other financial instruments;
- general economic and financial market conditions;

- government action or regulation;
- the financial condition, performance and prospects of us and our competitors;
- changes in financial estimates or recommendations by securities analysts with respect to us or our competitors in our industry;
- our issuance of additional preferred equity or debt securities; and
- actual or anticipated variations in quarterly operating results of us and our competitors.

As a result of these and other factors, holders of the Series A Preferred Stock may experience a decrease, which could be substantial and rapid, in the market price of the Series A Preferred Stock, including decreases unrelated to our operating performance or prospects.

A holder of Series A Preferred Stock has extremely limited voting rights.

The voting rights for a holder of Series A Preferred Stock are limited. Our shares of Common Stock are the only class of our securities that carry full voting rights. Voting rights for holders of the Series A Preferred Stock exist primarily with respect to the ability to elect, voting together with the holders of any other series of our preferred stock having similar voting rights, two additional directors to our board of directors, subject to certain limitations in the event that dividends payable on the Series A Preferred Stock are in arrears for four or more consecutive or non-consecutive quarterly dividend periods, and with respect to voting on amendments to our certificate of incorporation or certificate of designations relating to the Series A Preferred Stock that materially and adversely affect the rights of the holders of Series A Preferred Stock or authorize, increase or create additional classes or series of our capital stock that are senior to the Series A Preferred Stock. Other than the limited circumstances set forth in the certificate of designations for the Series A Preferred and except to the extent required by law, holders of Series A Preferred Stock do not have any voting rights.

The Series A Preferred Stock is not convertible, and investors will not realize a corresponding upside if the market price of the Common Stock increases.

The Series A Preferred Stock is not convertible into shares of Common Stock and earns dividends at a fixed rate. Accordingly, an increase in market price of our Common Stock will not necessarily result in an increase in the market price of our Series A Preferred Stock. The market value of the Series A Preferred Stock may depend more on dividend and interest rates for other preferred stock, commercial paper and other investment alternatives and our actual and perceived ability to pay dividends on, and in the event of dissolution satisfy the liquidation preference with respect to, the Series A Preferred Stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Risk management and strategy

As a publicly traded ammo manufacturer and e-commerce outdoor company, we are acutely aware of the importance of robust cybersecurity measures in safeguarding our information assets, operational integrity, and reputation. Our approach to cybersecurity risk management is integrated into our broader risk management framework and overseen by our Board of Directors.

We have established comprehensive processes to assess, identify, and manage material risks from cybersecurity threats. These processes include continuous evaluation of potential threats, regular security assessments of third-party service providers, and stringent monitoring procedures to mitigate risks related to data breaches and other security incidents. We periodically engage third-party consultants, legal advisors, and audit firms to evaluate and assess our risk management systems and to assist in the remediation of potential cybersecurity incidents, as necessary.

Our Information Security Program (“Program”) is designed to protect personal and proprietary information in compliance with federal and state requirements. The Program aims to:

- ensure the security and confidentiality of employee and customer personal information, as well as Company proprietary information;
- protect against anticipated threats or hazards to the security or integrity of such information; and
- prevent unauthorized access to, use of, or transfer of such information, thereby protecting the Company, its employees, and customers from potential harm or inconvenience.

We use a variety of tools and services, including network monitoring, vulnerability assessments, and tabletop exercises, to enhance our cybersecurity posture. Our incident response plan is comprehensive, detailing procedures for preparing for, detecting, responding to, and recovering from cybersecurity incidents. This plan includes processes for triaging, assessing the severity of, escalating, containing, investigating, and remediating cybersecurity incidents, while ensuring compliance with relevant legal obligations.

In addition to internal measures, we manage cybersecurity risks associated with third-party suppliers, particularly those with access to our systems or confidential data. We perform due diligence on critical third-party suppliers and monitor identified cybersecurity threats. We require these suppliers to contractually agree to manage their cybersecurity risks according to our standards or to submit to cybersecurity audits conducted by our agents.

We regularly engage third-party experts to conduct information security testing, including penetration testing, on our systems and infrastructure. Our information security program undergoes periodic external assessments aligned with the National Institute of Standards and Technology Cybersecurity Framework and the Payment Card Industry Data Security Standard. This alignment helps us identify, assess, and manage cybersecurity risks relevant to our business.

Governance

Our Board of Directors oversee our cybersecurity risk management. Directors receive reports as requested from management, including senior IT leadership and third parties, on cybersecurity matters. Additionally, the Board of Directors is kept informed about cybersecurity risks as part of our overall enterprise risk management program and through regular business updates.

Senior IT leaders and compliance officer are responsible for developing and implementing appropriate cybersecurity programs and ensuring our compliance with applicable laws and regulations. These leaders, equipped with relevant degrees, certifications, and extensive work experience, are informed by their cybersecurity teams about ongoing efforts to prevent, detect, mitigate, and remediate cybersecurity incidents.

Information regarding cybersecurity risks is communicated through various channels, including direct discussions between key leaders and Company management, and reports to the Board of Directors and its committees. The Board of Directors regularly receives updates from our compliance officer and senior IT leadership on the status of our cybersecurity measures and any significant developments.

Our commitment to cybersecurity is a fundamental aspect of our operational strategy, ensuring the protection of our information assets, the continuity of our operations, and the trust of our stakeholders.

ITEM 2. PROPERTIES

Our executive offices are located in Scottsdale, Arizona (“AZ”) where we lease approximately 21,000 square feet under a month-to-month triple net lease for approximately \$25,000 per month. This space houses our principal executive, administration, and marketing functions.

We lease a 10,000 square foot facility located in Atlanta, Georgia (“GA”) for approximately \$20,000 per month. This space houses our GunBroker offices and operations.

We lease a 36,000 square foot facility located in Manitowoc, WI for approximately \$10,000 per month. We utilize this facility for manufacturing and packaging .

We own a 185,000 square foot facility in Manitowoc, WI. Since our second fiscal quarter in the year ended March 31, 2023, we have utilized this facility for ammunition and casing manufacturing, research and development, packing, and shipping activities. A portion of this facility was financed by our Construction Loan. The terms of the Construction Loan are documented in Note 12 of our consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

On April 30, 2023, Steve Urvan, one of our directors, filed a lawsuit against the Company and certain individuals (including some of its officers and directors) in the Delaware Court of Chancery. Mr. Urvan’s complaint alleges that he was fraudulently induced to sell GunBroker.com to the Company. Mr. Urvan seeks partial rescission of the transaction, monetary damages and other relief. The Company and the individual defendants plan to vigorously defend the Company and themselves against Mr. Urvan.

In addition, 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 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

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

Market Information

Our Common Stock has been listed on Nasdaq since December 1, 2020 and is trading on Nasdaq under the symbol “POWW”.

Holders of Common Equity

As of June 10, 2024, there were 119,181,067 shares of Common Stock outstanding and there were approximately 271 holders of record of the Common Stock.

Dividend Information

We have never declared or paid dividends on our Common Stock. Payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including the terms of any credit arrangements, our financial condition, operating results, current and anticipated cash needs and plans for expansion. At the present time, we intend to retain any earnings in our business, and therefore do not anticipate paying dividends in the foreseeable future. We paid preferred dividends on our Series A Preferred Stock in the amount of \$3.0 million for the year ended March 31, 2024.

We currently have \$0.1 million of unpaid accrued dividends on our Series A Preferred Stock as of the date of this filing. Accordingly, we may not be able to declare a dividend on our Common Stock unless full cumulative dividends on the Series A Preferred Stock have been or contemporaneously are declared and paid or declared.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information as of March 31, 2024 with respect to our compensation plans under which equity securities may be issued.

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
2017 Equity Incentive Plan	-	-	2,303,159
Total	-	-	2,303,159

Transfer Agent

We have appointed Securities Transfer Corporation (“STC”) as the transfer agent for our Common Stock and Series A Preferred Stock. The principal office of STC is located at 2901 N. Dallas Parkway, Suite 380, Plano, Texas 75093, and its telephone number is (469) 633-0101.

Recent Sales of Unregistered Securities

None.

Issuers Repurchase of Equity Securities

On February 8, 2022, we announced that our Board of Directors authorized a share repurchase program for up to \$30 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 8, 2024, we announced that our Board of Directors authorized the extension of our repurchase program until February 2025.

There were no share repurchases under our repurchase program during the fourth fiscal quarter of the 2024 fiscal year.

As of June 10, 2024, approximately 1.4 million shares have been repurchased in total. The current plan is in effect until February 2025 and the remaining funds available to the Company pursuant to the repurchase plan is approximately \$27.4 million.

Performance Graph

The following graph compares the cumulative total stockholder return of our common stock (Nasdaq: POWW) in comparison to the cumulative total return of the Nasdaq Capital Market Composite (“Nasdaq CMC”) and the Russell 2000 Index (“Russell 2000”) for the period from March 31, 2019 through March 31, 2024. The graph assumes an investment of \$100 in our common stock and in each of the indexes on March 31, 2019. The calculation of cumulative stockholder return on the Nasdaq CMC and Russell 2000 include reinvestment of dividends, but the calculation of cumulative stockholder return on our common stock does not include reinvestment of dividends because we did not pay any dividends during the measurement period. The performance shown is not necessarily indicative of future performance.



ITEM 6. RESERVED

Not required.

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

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.

Overview

AMMO, Inc., owner of the GunBroker 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 2017.

Through our GunBroker 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 8.1 million users to follow ownership policies and regulations through our network of over 31,000 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 and to become a peer to those in our industry. Recent expansions we have made to the platform are;

- **Payment Processing** – facilitating payment between parties allowing sellers to offer fast and secure electronic payments and allowing buyers to experience the ease of instant checkout.
- **Carting Ability** – enables our buyers to checkout multiple items from multiple sellers in a single transaction. Our buyers are able to finalize one transaction including both regulated and nonregulated items, while also affording them the ability to ship their purchases to more than one location.
- **GunBroker Analytics** – through the compilation and refinement of vast Marketplace data, we offer e-commerce market analytics to our industry peers allowing them to better manage business strategy and planning. The analytics offering will be rebranded to Outdoor Analytics during fiscal year 2025 to expand service offerings.
- **GunBroker Advertising** – content creation for manufactures, email campaigns and banner ads are all part of our advertising offerings to the outdoor industry.

Through our Ammunition segment, we are tailoring our focus of our manufacturing operations to the production of premium pistol and rifle ammunition and supporting industry partners with manufactured components such as premium pistol and rifle brass casings. We will continue to leverage our flagship brands that are proprietary in nature like STREAK VISUAL AMMUNITION™, /stelTH™, Signature-on-Target, and HUNT 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 U.S. military complex in support of our cutting-edge developmental ammunition programs as we seek out and effectively execute upon new governmental-based opportunities.

Results of Operations

The following discussion 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 Annual Report beginning on page F-1.

Fiscal Year 2024 Compared to Fiscal Year 2023

Our financial results for the year ended March 31, 2024 reflect our transition into our new operational strategic position, focusing on higher brass casing production and sales. We believe that we have hired a strong team of professionals and developed innovative products to establish our presence as a high-quality ammunition provider and marketplace. We continue to focus on building profitability through our rifle brass manufacturing. We experienced a 24.2% decrease in our Net Revenues for the year ended March 31, 2024 compared with the year ended March 31, 2023. This was the result of decreased revenue in both of our reporting segments due to changes in market demand as discussed below, and specifically for our ammunition division, changes in pricing, sales mix. We believe that the shift in our operational strategy focusing on higher brass casing production and sales negatively impacted our sales in the year ended March 31, 2024 as compared to the year ended March 31, 2023. Additionally, equipment malfunction related to rifle production in our manufacturing facility in Manitowoc caused lower production output contributing to lower sales results. Our focus on creating profitability is in contrast to revenue growth.

The following table presents summarized financial information for the years ended March 31, 2024 and 2023, taken from our consolidated statements of operations:

	For the Year Ended	
	March 31, 2024	March 31, 2023
Net Revenues	\$ 145,054,572	\$ 191,439,801
Cost of Revenues	102,431,803	136,031,204
Gross Margin	42,622,769	55,408,597
Sales, general & administrative expenses	61,199,966	58,667,516
Income (loss) from Operations	(18,577,197)	(3,258,919)
Other income (expense)		
Other income (expense)	(779,066)	(606,881)
Income (loss) before provision for income taxes	\$ (19,356,263)	\$ (3,865,800)
Provision for income taxes	(3,791,063)	730,238
Net Income (Loss)	\$ (15,565,200)	\$ (4,596,038)

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 that we use to evaluate our business. We believe that these measures are useful for period-to-period comparisons of the Company. We have included these non-GAAP financial measures in this Annual Report on Form 10-K 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 that 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 Year Ended March 31, 2024	For the Year Ended March 31, 2023
	Reconciliation of GAAP net income to Adjusted EBITDA	
Net Loss	\$ (15,565,200)	\$ (4,596,038)
Provision for income taxes	(3,791,063)	730,238
Depreciation and amortization	18,813,897	17,519,949
Interest expense, net	446,473	632,062
Employee stock awards	4,082,108	5,807,779
Stock grants	203,000	179,094
Common stock purchase options	430,457	-
Warrants issued for services	-	213,819
Other income (expense), net	332,593	(25,181)
Contingent consideration fair value	(80,540)	(63,764)
Other nonrecurring expenses ⁽¹⁾	10,498,990	1,248,865
Proxy contest fees ⁽²⁾	-	4,724,385
Adjusted EBITDA	<u>\$ 15,370,715</u>	<u>\$ 26,371,208</u>

(1) Other nonrecurring expenses consist of professional and legal fees that are nonrecurring in nature.

(2) Includes proxy contest fees of \$910,000 for Employee Stock Awards issued as a result of the Settlement Agreement as discussed in Note 17 of our financial statements.

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

We have excluded the following non-cash expenses from our non-GAAP financial measures: provision or benefit for income taxes; depreciation and amortization; share-based or warrant-based compensation expenses; and changes to the contingent consideration fair value. We believe that it is useful to exclude these non-cash expenses because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations.

Adjusted EBITDA as a non-GAAP financial measure also excludes other cash interest income and expense, and non-recurring expenses incurred as a result of a proxy contest as these items are not components of our core operations.

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, stock grants, and common stock purchase options 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;
- non-GAAP measures do not reflect changes in, or cash requirements for, our working capital needs; and
- other companies, including companies in our industry, may calculate their 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 Revenues

The following table shows our revenues by the various categories that comprise our total revenues for the years ended March 31, 2024 and March 31, 2023. “Proprietary ammunition” include those lines of ammunition that we manufacture at our facilities and sell 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” includes ammunition that we manufacture at our facilities as well as any completed ammunition that we acquire 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 that we manufacture using reprocessed brass casings. Ammunition within the standard ammunition product line typically carries much lower gross margins than our proprietary ammunition.

	For the Year Ended	
	March 31, 2024	March 31, 2023
Proprietary Ammunition	\$ 6,265,500	\$ 10,779,035
Standard Ammunition	63,125,301	103,337,009
Ammunition Casings	21,721,695	14,174,084
Marketplace Revenue	53,942,076	63,149,673
Total Net Revenues	<u>\$ 145,054,572</u>	<u>\$ 191,439,801</u>

Net Revenues for the year ended March 31, 2024 decreased by \$46.4 million, or 24.2%, from the prior year due to changes in market conditions. This was due to the result of a decrease of \$40.2 million in sales of bulk pistol and rifle ammunition, \$4.5 million in sales of Proprietary Ammunition, and \$9.2 million in sales generated from our GunBroker Marketplace, which primarily consists of auction revenue, as well as payment processing revenue, and shipping income, partially offset by an increase of \$7.5 million in our casing sales. We believe that the shift in our operational strategy focusing on higher brass casing production and sales negatively impacted our sales in the year ended March 31, 2024 as compared to the year ended March 31, 2023. Additionally, equipment malfunction related to rifle production in our manufacturing facility in Manitowoc caused lower production output contributing to lower sales results. Management anticipates an increase in ammunition casings sales as capacities come online in its new Manitowoc facility.

With our new Manitowoc facility coming online we will continue to expand distribution into commercial markets, introduce new product lines, and continue to initiate sales to U.S. law enforcement, military, and international markets.

For example, through our acquisition 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 U.S. 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 rounds under contract with the U.S. Government in support of U.S. 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, that we anticipated will drive sustained sales opportunity in the military, law enforcement, and commercial markets.

Cost of Revenues

Cost of Revenues decreased by approximately \$33.6 million from \$136.0 million to \$102.4 million for the year ended March 31, 2024 compared to the comparable period ended in 2023. This was the result of a significant decrease in net sales as well increases to non-cash depreciation related to increases in production equipment, expensing of increased labor, and overhead used to produce finished product during 2024 as compared to 2023. Cost of Revenues for our ammunition segment consists of product cost and cost directly and indirectly associated with getting those products to a sellable state and for our marketplace segment, consists of cost associated with facilitating transactions on the platform.

Gross Margin

Our gross margin percentage, which measures our gross profit as a percentage of sales increased to 29.4% during the year ended March 31, 2024 from 28.9% for the year ended March 31, 2023. This was primarily a result of our marketplace, GunBroker which, by nature has significantly higher margins than our manufactured products, offset by increases in labor costs and overhead in our ammunition segment.

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

- Capacity improvements at the Plant and expansion of our rifle casing and loading lines;
- Increased product sales, specifically of proprietary and flagship lines of ammunition, like the STREAK VISUAL AMMUNITION™, /stElTH™, Signature-on-Target, and HUNT all of which carry higher margins as a percentage of their selling price;
- Introduction of new lines of ammunition that carry higher margins in the consumer and government sectors;
- Reduced component costs through insourced operations of our ammunition segment and expansion of strategic relationships with component providers resulting in cost savings;
- Expanded use of automation equipment that reduces the total labor required to assemble finished products;
- Vertical integration into tooling manufacturing and annealing of rifle cases that have previously been outsourced;
- Better leverage of our fixed costs through expanded production to support the sales objectives
- With the addition of the multi-item cart, the payment processing, we’ve adjusted our category fees for nonregulated items that will enable us to increase our take rate across the platform as we enable cross selling;
- And, we are growing our advertising sales, financing partnerships, and bringing shipping options to our community.

Operating Expenses

Operating expenses consists of selling and marketing expenses, corporate general & administrative, and employee salaries and related expenses. Operating expenses increased by approximately \$2.5 million for the year ended March 31, 2024 compared to the prior year, and increased as a percentage of sales to 42.2% in the 2024 fiscal year from 30.6% for the year ended March 31, 2023. This increase was primarily due to a \$4.9 million, or 18.4%, increase in corporate general and administrative expenses, offset by a \$3.4 million, or 71.0%, decrease in selling and marketing expenses, during the year ended March 31, 2024 compared to the prior year.

Selling and marketing expenses consists of commissions related to our sales, as well as advertising and marketing expenses. During the year ended March 31, 2024, our selling and marketing expenses decreased primarily as a result of decreases in sales commission due to the decrease in the amount of sales of our products and services compared to the year ended March 31, 2023.

The increase in our corporate general and administrative expenses was due primarily to an increase of \$9.2 million of nonrecurring expenses, consisting of professional and legal fees that are nonrecurring in nature, offset by the lack of expenses relating to a proxy contest in connection with our annual meeting of stockholders held on January 5, 2023, in connection with which we incurred \$4.7 million in expenses.

In addition, employee salaries and related expenses increased approximately \$1.0 million for the year ended March 31, 2024 compared to the year ended March 31, 2023. Such increase was primarily the result of \$0.8 million of additional payroll expenses that we incurred as a result of the implementation of an employee bonus program during the 2024 fiscal year.

Other Income and Expenses

Total other expense for the year ended March 31, 2024, increased by \$0.4 million compared to the year ended March 31, 2023. This was primarily the result of \$0.2 million in losses recorded on the disposal of assets.

The decrease in interest expense was mainly due to additional interest of approximately \$0.2 million during the year ended March 31, 2024 compared to the prior year on our Construction Note Payable, offset by approximately \$0.3 million of interest income.

Income Taxes

For the year ended March 31, 2024, we recorded a benefit for federal and state income taxes of approximately \$3.8 million in comparison to a \$0.7 million provision for federal and state income taxes in the year ended March 31, 2023, as a result of the increase in our net loss before taxes during fiscal 2024 compared to the prior year.

Net Loss

We ended the year ended March 31, 2024 with a net loss of approximately \$15.6 million compared with a Net Loss of approximately \$4.6 million for the year ended March 31, 2023.

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

Fiscal Year 2023 Compared to Fiscal Year 2022

Results of Operations

Our financial results for the year ended March 31, 2023 reflect our newly positioned organization as we transition into our new manufacturing facility. 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 continue to focus on growing our top line revenue, and streamlining our operations. We experienced a 20.3% decrease in our Net Revenues for the year ended March 31, 2023 compared with the year ended March 31, 2022. This was the result of decreased ammunition sales due to changes in market demand.

The following table presents summarized financial information for the years ended March 31, 2023 and 2022, taken from our consolidated statements of operations:

	For the Year Ended	
	March 31, 2023	March 31, 2022
Net Revenues	\$ 191,439,801	\$ 240,269,166
Cost of Revenues	136,031,204	151,505,657
Gross Margin	55,408,597	88,763,509
Sales, general & administrative expenses	58,667,516	51,614,147
Income (loss) from Operations	(3,258,919)	37,149,362
Other income (expense)		
Other income (expense)	(606,881)	(615,957)
Income (loss) before provision for income taxes	\$ (3,865,800)	\$ 36,533,405
Provision for income taxes	730,238	3,285,969
Net Income (Loss)	\$ (4,596,038)	\$ 33,247,436

Non-GAAP Financial Measures

Adjusted EBITDA

	For the	For the
	Year Ended	Year Ended
	March 31, 2023	March 31, 2022
Reconciliation of GAAP net income to Adjusted EBITDA		
Net Income (Loss)	\$ (4,596,038)	\$ 33,247,436
Provision for income taxes	730,238	3,285,969
Depreciation and amortization	17,519,949	17,339,093
Interest expense, net	632,062	637,797
Employee stock awards	5,807,779	5,759,000
Stock grants	179,094	252,488
Stock for services	-	4,200
Warrants issued for services	213,819	718,045
Contingent consideration fair value	(63,764)	(385,750)
Other income	(25,181)	(21,840)
Proxy contest fees ⁽¹⁾	4,724,385	-
Other nonrecurring expenses ⁽²⁾	1,248,865	-
Adjusted EBITDA	<u>\$ 26,371,208</u>	<u>\$ 60,836,438</u>

(1) Includes proxy contest fees of \$910,000 for Employee Stock Awards issued as a result of the Settlement Agreement as discussed in Note 17 of our consolidated financial statements.

(2) Other nonrecurring expenses consist of professional and legal fees that are nonrecurring in nature.

In addition to the adjustments described above, we have modified our adjusted EBITDA calculation in our 2023 fiscal year 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, but will not include this adjustment in future periods.

Net Revenues

The following table shows our revenues by the various categories that comprise our total net revenues for the years ended March 31, 2023 and March 31, 2022.

	For the Year Ended	
	March 31, 2023	March 31, 2022
Proprietary Ammunition	\$ 10,779,035	\$ 10,071,659
Standard Ammunition	103,337,009	151,387,366
Ammunition Casings	14,174,084	14,201,625
Marketplace Revenue	63,149,673	64,608,516
Total Net Revenues	\$ 191,439,801	\$ 240,269,166

Revenues for the year ended March 31, 2023 decreased by \$48.8 million, or 20.3%, from the prior year almost entirely as the result of a \$48.1 million decrease in sales of bulk pistol and rifle ammunition. Sales of bulk pistol and rifle ammunition decreased year-over-year due to changes in market conditions.

Cost of Revenues

Cost of revenues decreased by \$15.5 million, or 10.2%, for the year ended March 31, 2023 compared to the year ended March 31, 2022. This was the result of the decrease in sales of our products, as discussed in “Revenues” above, as well increases to non-cash depreciation related to increases in production equipment, expensing of increased labor, overhead, and raw materials used to produce finished product during 2023 as compared to 2022.

Gross Margin

Our gross margin percentage decreased to 28.9% during the year ended March 31, 2023 from 36.9% during the year ended March 31, 2022. This was primarily a result of increases in the costs of materials, labor, and overhead in our ammunition segment, which was offset by our online marketplace, GunBroker.com which, by nature has significantly higher margins than our manufactured products.

Operating Expenses

Operating expenses increased by \$7.1 million for the year ended March 31, 2023 compared to the prior year, and increased as a percentage of sales to 30.6% from 21.5% for the year ended March 31, 2022. This increase was primarily due to increases of \$8.0 million, or 47.1%, in corporate general and administrative expenses and \$2.1 million, or 15.2%, in employee salaries and related expenses, offset by a \$2.6 million, or 35.3%, decrease in selling and marketing expenses, during the year ended March 31, 2023 compared to the prior year.

For the year ended March 31, 2023, we incurred additional expenses in the amounts of \$5.6 million related to a proxy contest, of which \$0.9 million was included non-cash stock compensation, and \$1.2 million of nonrecurring expenses.

Selling and marketing expenses decreased during the year ended Marh 31, 2023, compared to the prior year, primarily as a result of the decreases in sales commission due to the year-over-year decrease in the amount of sales of our products.

Corporate general and administrative expenses increased year-over-year due to \$6.6 million of legal and professional fees and expenses incurred during 2023, largely related to the proxy contest, as discussed above, and \$1.2 million of nonrecurring expenses, which consist of professional and legal fees that are nonrecurring in nature, for which there were no comparable expenses during the year ended March 31, 2022.

Employee salaries and related expenses increased \$2.1 million for the year ended March 31, 2023 compared to the year ended March 31, 2022, primarily as a result of \$2.1 million of additional payroll expenses incurred as a result of payments due upon termination without cause as a result of the Proxy Settlement Agreement (as discussed in Note 17 – Related Party Transactions of our consolidated financial statements) and the addition of employees in our Marketplace segment.

Other Income and Expense

For the year ended March 31, 2023, other income and interest expense remained constant compared with year ended March 31, 2022. The change to interest expense from the prior periods was mainly due to increases related to our Construction Note Payable of approximately \$0.3 million and decreases in activity related to our Factoring Liability and our Inventory Credit Facility of approximately \$0.3 million.

Income Taxes

For the year ended March 31, 2023, we recorded a provision for federal and state income taxes of approximately \$0.7 million in comparison to \$3.3 million in the year ended March 31, 2022, as a result of the decrease in net income(loss) before taxes.

Net Income

We ended the year ended March 31, 2023 with a net loss of approximately \$4.6 million compared with a Net Income of approximately \$33.2 million for the year ended March 31, 2022.

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

Liquidity and Capital Resources

As of March 31, 2024, we had \$55,586,441 of cash and cash equivalents, an increase of \$16,452,414 from March 31, 2023.

Working capital is summarized and compared as follows:

	March 31, 2024	March 31, 2023
Current assets	\$ 131,525,266	\$ 128,451,893
Current liabilities	30,940,272	25,463,399
	<u>\$ 100,584,994</u>	<u>\$ 102,988,494</u>

Liquidity

We expect 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 March 31, 2024, we had \$2.6 million of fixed lease payment obligations with \$0.7 million payable within the next 12 months. Please refer to Note 10 – Leases for additional information.

Construction Note Payable

We financed a portion of our new production facility with our Construction Note Payable. We expect to make \$0.8 million in principal and interest payments within the next 12 months. The principal balance of the Construction Note will mature on October 14, 2026.

Revolving Loan

We have obtained a Revolving Loan with Sunflower Bank, National Association (“N.A.”) for up to \$20,000,000 in December of 2023. The proceeds 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 our stock repurchase program and to fund our general business requirements. We have not made use of the Revolving Loan as of the date of this filing.

Changes in cash flows are summarized as follows:

Operating Activities

For the year ended March 31, 2024, net cash provided by operations totaled \$32.6 million. This was primarily the result of our net loss of \$15.6 million, offset by decreases to our period end inventories of \$8.8 million, deposits of \$6.7 million, prepaid expenses of \$4.0 million, accounts receivable of \$0.4 million, increases in accounts payable of \$5.1 million and increases in accrued liabilities of \$2.5 million. The cash provided by operations included the benefit of non-cash expenses for depreciation and amortization of \$18.8 million, employee stock compensation of \$4.1 million, \$0.4 million of allowance for credit losses, common stock purchase options of \$0.4 million, and stock grants totaling \$0.2 million, which was offset by \$3.8 million of deferred income taxes.

For the year ended March 31, 2023, net cash provided by operations totaled \$35.6 million. This was primarily the result of our net loss of \$4.6 million, decreases to our period end accounts receivable of \$14.4 million, inventories of \$4.7 million, deposits of \$4.3 million, and prepaid expenses of \$2.8 million offset by increases in accounts payable and accrued liabilities of \$8.7 million and \$2.8 million, respectively. The cash used in operations was partially offset by the benefit of non-cash expenses for depreciation and amortization of approximately \$17.5 million, employee stock compensation of \$5.8 million, \$1.6 million of deferred income taxes, stock grants totaling \$0.2 million, \$0.2 million of allowance for credit losses, and \$0.2 million of warrants issued for services.

Investing Activities

During the year ended March 31, 2024, we used \$8.0 million in net cash for investing activities. Net cash used in investing activities consisted of \$8.0 million related to purchases of production equipment, and capitalized development costs related to our marketplace, GunBroker.

During the year ended March 31, 2023, we used approximately \$12.5 million in net cash for investing activities. Net cash used in investing activities consisted of approximately \$12.5 million related to purchases of production equipment, the construction of our new manufacturing facility in Manitowoc, WI, and capitalized development costs related to our marketplace, GunBroker.

Financing Activities

During the year ended March 31, 2024, net cash used in financing activities was \$8.7 million, consisting of \$3.2 million of insurance premium note payments, \$3.0 million of preferred stock dividends paid, \$2.2 million used to repurchase shares of Common Stock pursuant to our repurchase plan, and \$0.2 million in payments of our related party note payable. These items were offset by \$0.1 million of proceeds from warrants exercised for common stock. Additionally, \$37.3 million was generated from accounts receivable factoring, which was offset by payments of \$37.3 million.

During the year ended March 31, 2023, net cash used in financing activities was \$6.7 million, consisting of \$3.0 million of preferred stock dividends paid, \$2.1 million of insurance premium note payments, an \$0.8 million reduction in our Inventory Credit Facility, and \$0.7 million in payments of our related party note payable. These items were offset by \$1.0 million generated from our construction note payable and \$0.1 million of proceeds from warrants exercised for common stock. Additionally, approximately \$71.3 million was generated from accounts receivable factoring, which was offset by payments of approximately \$72.3 million.

Off-Balance Sheet Arrangements

As of March 31, 2024, 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 Estimates and Policies

Our discussion and analysis of our financial condition and results of operation are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, however actual results may differ from these estimates. We have identified several accounting principles that we believe are key to the understanding of our financial statements. These important accounting policies and estimates require our most difficult subjective judgements.

We believe that certain assumptions and estimates associated with 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 are material in nature due to the subjectivity associated with them and have the greatest potential impact on our consolidated financial statements. Therefore, we consider the assumptions and estimates associated with these (as further detailed below) to be our critical accounting estimates. Please refer to Note 2 – Summary of Significant Accounting Policies of our consolidated financial statements for more information on our critical accounting estimates and policies.

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, 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 year ended March 31, 2024. As of March 31, 2024, the Company has a goodwill carrying value of \$90,870,094, all of which is assigned to the Marketplace segment. However, due to declines in the value of the Company's common stock and market capitalization in previous years which have since stabilized, 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, 2025.

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.

Accounts Receivable and Allowance for Credit Losses

Our accounts receivable represents amounts due from customers for products sold and include an allowance for credit losses which is estimated based on the aging of the accounts receivable and specific identification of uncollectible accounts. At March 31, 2024 and March 31, 2023, we reserved \$3,666,078 and \$3,246,551, respectively, of allowance for credit losses.

Inventory

We state inventories at the lower of cost or net realizable value. We determine cost by using the weighted-average cost of raw materials method, which approximates the first-in, first-out method and includes allocations of manufacturing labor and overhead. We make provisions when necessary, to reduce excess, potential damaged or obsolete inventories. These provisions are based on our best estimates. At March 31, 2024, and March 31, 2023, we conducted a full analysis of inventory on hand and expensed all inventory not currently in use, or for which there was no future demand.

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.

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 it transfers 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 based upon the terms of the contract. 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.

Compliance fee revenue consists of fees charged to customers based on a percentage of the final price of an item at the time or purchased. 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.

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 years ended March 31, 2024, 2023, and 2022, we recognized \$6.2 million, \$9.8 million, and

\$14.6 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.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to us as of March 31, 2024. 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.

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.

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 1,936,951 and 1,777,294 shares of common stock issued to employees, members of the Board of Directors, and members of our advisory committee for services for the years ended March 31, 2024 and March 31, 2023, respectively.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have not entered into any market risk sensitive instruments for trading purposes. We are exposed to market risks in the ordinary course of business including fluctuations in interest rates and commodity prices, which can affect our operating, investing, and financing activities. We believe our primary market risk is interest rate risk. Our Revolving Loan is indexed to market rates. Although we did not have a balance outstanding under our Revolving Loan at March 31, 2024, if we were to make use of the total commitment amount of \$20.0 million, a 100 basis point increase would result in an impact of \$200,000 additional interest expense for the year ended March 31, 2024. The interest rates on our Construction Note Payable are not indexed to market rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financials are submitted as a separate section of this Annual Report on Form 10-K beginning on page F-1.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

As of March 31, 2024, our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

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 March 31, 2024. 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 March 31, 2024.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance of the reliability of financial reporting and of the preparation of financial statements for external reporting purposes, in accordance with U.S. GAAP.

Internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and disposition of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with the authorization of its management and directors; and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, and because of the material weaknesses described below, our management concluded that our internal control over financial reporting was not effective as of March 31, 2024.

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

These material weaknesses did not result in any identified misstatements to the financial statements, and there were no changes to previously released financial results.

Pannell Kerr Forster of Texas, P.C., an independent registered public accounting firm, that audited the financial statements included in this annual report has issued an attestation report on the Company's internal control over financial reporting, which is included in this report.

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 GAAP. The following material weaknesses in our internal control over financial reporting were identified in the normal course as of March 31, 2024:

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

- the Company failed to fully resolve identified segregation of duties conflicts with system access for designated business and IT users, thus related user access review and application change management procedures around logging could not be relied upon for select Company systems.
- the Company failed to maintain effectively designed Information Technology General Controls ("ITGCs") in the areas of user access, application change management, logical access controls, and segregation of duties for one of the Company's third-party information technology system that supports the Company's financial reporting process.
- the Company failed to effectively execute management review procedures to validate the completeness and accuracy of transactions and to clearly define and evidence the process used and criteria and judgment applied in performance of critical business activities.

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.

Management, with the oversight of the Audit Committee of the Board of Directors, has been actively engaged in remediation efforts to address the material weaknesses throughout 2024, and these efforts will continue into 2025.

We have made enhancements to our control environment by improving guidance, communication of expectations, and importance of internal controls. Specifically, the Board of Directors formally approved the annual budget and delegation of authority over company transactions, and a whistleblower hotline and accompanying reporting process was implemented. In addition, accounting policies related to journal entries and invoice approval were adopted and IT policies and procedures were developed. The Company hired personnel in key positions, and management continues to assess the hiring of additional personnel to ensure that the Company has a sufficient complement of qualified personnel at the right levels, based on any identified gaps in personnel requirements.

Due to accounting system limitations, management is limited in its ability to effectively design and implement general information technology controls around select systems that support the underlying business cycle controls. Management is planning an evaluation of a new accounting system during the next fiscal period. The new system will allow management to effectively design and implement appropriate general information technology controls including enforced segregation of duties. Management will also continue the rollout of IT remediation action plans, including developing an enhanced risk assessment process for third-party IT systems and implementation of IT monitoring procedures. In addition, management will continue to evaluate organization structure and hiring of personnel, and enhancement of management review procedures to validate completeness and accuracy of transactions at the time of review.

Remediation of Previously Identified Material Weaknesses

The following material weaknesses were previously disclosed in our Annual Report on Form 10-K for the year ended March 31, 2023:

- 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 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.

We have concluded that with the exception of a lack sufficient number of qualified personnel and continued enhancement of management review procedures as discussed above, these material weaknesses have been remediated.

Changes in Internal Controls over Financial Reporting

There was a change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during our most recent quarter that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Throughout fiscal 2024 and including our most recent fiscal quarter ended March 31, 2024, we have undertaken measures to remediate the previously disclosed material weaknesses. Management intends to implement certain remediation steps to address the material weaknesses described under Management's Remediation Initiatives. However, management has not fully implemented those remediation steps and expects remediation efforts to continue into fiscal year 2025.

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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
AMMO, Inc.

Opinion on Internal Control over Financial Reporting

We have audited AMMO, Inc.'s (the "Company's") internal control over financial reporting as of March 31, 2024, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of March 31, 2024, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

A material weakness is a control deficiency, or a combination of deficiencies, 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. The following material weaknesses have been identified and included in management's assessment.

- Certain information technology ("IT") controls for security and administration of key IT systems did not operate effectively throughout the year. Specifically, (i) periodic user access reviews of roles and permissions were not performed sufficiently throughout the period for certain key IT systems, (ii) certain key IT systems were not logically restricted between business and IT administration access privileges, resulting in improper segregation of duties for certain business processes, and (iii) log monitoring was not in place to track business and IT administrator activities.
- Controls were not effectively designed in the areas of user access, application change management, logical access and segregation of duties for one third party system which supports the Company's financial reporting process.
- Controls were not appropriately executed or evidenced related to management review procedures and validation of the accuracy and completeness of information used in the performance of controls.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2024 financial statements, and this report does not affect our report dated June 13, 2024, on those financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets and the related consolidated statements of operations, stockholders' equity, and cash flows of the Company, and our report dated June 13, 2024, expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PANNELL KERR FORSTER OF TEXAS, P.C.

Houston, Texas
June 13, 2024

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information responsive to this item is incorporated herein by reference to the Corporate Governance section in our definitive proxy statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended March 31, 2024.

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to this item is incorporated herein by reference to the Executive Compensation section in our definitive proxy statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended March 31, 2024.

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

Information responsive to this item is incorporated herein by reference to the Security Ownership of Certain Beneficial Owners and Management in our definitive proxy statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended March 31, 2024.

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

Information responsive to this item is incorporated herein by reference to the Corporate Governance section in our definitive proxy statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended March 31, 2024.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information responsive to this item is incorporated herein by reference to Proposal 2 in our definitive proxy statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended March 31, 2024.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules are set forth under Part II, Item 8 of this report.

(b) Exhibits

Other Schedules are omitted because they are not applicable, not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

Exhibit Number	Exhibit Description	Reference		Filed or Furnished	
		Form	Exhibit	Filing Date	Herewith
2.1#	Agreement and Plan of Merger, dated April 30, 2021, by and among Ammo, Inc., SpeedLight Group I, LLC, Gemini Direct Investments, LLC and Steven F. Urvan (1)	8-K	2.1	5/6/2021	
3.1	Certificate of Incorporation (Amended and Restated) filed with the Delaware Secretary of State on October 24, 2018	8-K	3.1	10/26/2018	
3.2	Bylaws	8-K	3.03	02/09/2017	
3.3	Certificate of Designations with respect to the 8.75% Series A Cumulative Redeemable Perpetual Preferred Stock, par value \$0.001 per share, dated May 18, 2021	8-A	3.1	5/20/2021	
4.1	Compilation of JSC Agreements dated November 4, 2020	10-Q	4.3	11/13/2020	
4.2	Form of Underwriters' Warrant Agreement issued December 3, 2020	8-K	4.1	12/4/2020	
4.3	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.	10-K	4.3	6/14/2023	
4.4	Promissory Note issued by Ammo, Inc., Firelight Group I, LLC in favor of Hiawatha National Bank, dated October 14, 2021.	10-Q	4.1	2/14/2022	
10.1+	2017 Equity Incentive Plan, as amended	S-8	4.1	3/30/2023	
10.2	First Amended and Restated Factoring and Security Agreement, as amended, by and between Ammo, Inc. and Factors Southwest, LLC	8-K	10.1	3/11/2021	
10.3	Revolving Inventory Loan and Security Agreement, as amended, by and between Ammo, Inc. and Factors Southwest, LLC	8-K	10.2	3/11/2021	
10.4	Exclusive License Agreement between AMMO Technologies Inc. and University of Louisiana at Lafayette, dated November 16, 2017, as amended in 2018 and 2022	10-Q	10.1	2/14/2023	

10.5+	Amended and Restated Employment Agreement, by and between AMMO, Inc. and Jared Smith, dated July 24, 2023	8-K	10.1	7/25/2023	
10.6+	Amended and Restated Employment Agreement, by and between AMMO, Inc. and Fred W. Wagenhals, dated July 24, 2023	8-K	10.2	7/25/2023	
10.7+	Employment Agreement of Robert D. Wiley, as amended	10-K	10.6	6/14/2023	
10.8	Lock-Up Agreement, dated April 30, 2021, by and between Ammo, Inc. and Steven F. Urvan	8-K	10.1	5/6/2021	
10.9	Voting Rights Agreement, dated April 30, 2021, by and between Ammo, Inc. and Steven F. Urvan	8-K	10.2	5/6/2021	
10.10	Standstill Agreement, dated April 30, 2021, by and between Ammo, Inc. and Steven F. Urvan	8-K	10.3	5/6/2021	
10.11	Investor Rights Agreement, dated April 30, 2021, by and between Ammo, Inc. and Steven F. Urvan	8-K	10.4	5/6/2021	
10.12	Construction Loan Agreement by and among Ammo, Inc., Firelight Group I, LLC, and Hiawatha National Bank, dated October 14, 2021.	10-Q	10.1	2/14/2022	
10.13	Settlement Agreement, by and among AMMO, Inc., Steven F. Urvan and Susan T. Lokey, dated November 3, 2022	8-K	10.1	11/7/22	
10.14	Amendment to Settlement Agreement, by and among AMMO, Inc., Steven F. Urvan and Susan T. Lokey, dated November 21, 2022	8-K	10.1	11/22/22	
21.1	Subsidiaries of the Company	10-K	21.1	6/14/2023	
23.1	Consent of Pannell Kerr Forster of Texas, P.C Independent Registered Account Firm Relating to Consolidated Financial Statements of the Company for the year ended March 31, 2024				X
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	Inline XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				X

Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company will furnish supplementally copies of omitted schedules and exhibits to the Securities and Exchange Commission or its staff upon its request.

+ Management compensatory plan or contract.

* Furnished herewith.

SIGNATURES

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

AMMO, INC.

Date: June 13, 2024

By: /s/ Jared R. Smith

Jared R. Smith, Chief Executive Officer (Principal Executive Officer)

Date: June 13, 2024

By: /s/ Robert D. Wiley

Robert D. Wiley, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jared R. Smith</u> Jared R. Smith	Chief Executive Officer and Director (Principal Executive Officer)	June 13, 2024
<u>/s/ Robert D. Wiley</u> Robert D. Wiley	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 13, 2024
<u>/s/ Fred W. Wagenhals</u> Fred W. Wagenhals	Chairman of the Board of Directors, Executive Chair	June 13, 2024
<u>/s/ Russell W. Wallace Jr.</u> Russell W. Wallace, Jr.	Director	June 13, 2024
<u>/s/ Richard Childress</u> Richard Childress	Director	June 13, 2024
<u>/s/ Jessica M. Lockett</u> Jessica M. Lockett	Director	June 13, 2024
<u>/s/ Steven F. Urvan</u> Steven F. Urvan	Director	June 13, 2024
<u>/s/ Wayne Walker</u> Wayne Walker	Director	June 13, 2024
<u>/s/ Christos Tsentas</u> Christos Tsentas	Director	June 13, 2024
<u>/s/ Randy E. Luth</u> Randy E. Luth	Director	June 13, 2024

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
AMMO, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AMMO, Inc. and Subsidiaries (the “Company”) as of March 31, 2024 and 2023, the related consolidated statements of operations, stockholders’ equity and cash flows for each of the years in the three year period ended March 31, 2024, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2024 and 2023, and the results of its operations and its cash flows for each of the years in the three year period ended March 31, 2024 in conformity with U. S. Generally Accepted Accounting Principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of March 31, 2024, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 13, 2024, expressed an adverse opinion.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (i) related to accounts or disclosures that are material to the financial statements and (ii) involved especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment of Long-Lived Assets

The Company has recorded long-lived assets of approximately \$58 million in its ammunition reporting unit. As described in Note 2 to the financial statements, the Company monitors events and changes in circumstances that could indicate the carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. The Company’s calculations in performing this analysis requires management to make various judgments, assumptions, and estimates, the most significant of which include projected revenue growth rates, operating margins and future anticipated changes to production. We identified long-lived asset impairment as a critical audit matter primarily because of the judgment involved in reviewing management’s estimates as well as the degree of subjectivity in evaluating audit evidence.

Our testing procedures to address this critical audit matter included, among others, the following:

- Obtaining managements memorandum and calculations, which we reviewed for reasonableness and mathematical accuracy;
- Discussions with management regarding considerations of past, current and future operations of the reporting unit; and
- Performing independent analyses utilizing various inputs and assumptions based on our historical experience as well as future expectations.

/s/ PANNELL KERR FORSTER OF TEXAS, P.C.

We have served as the Company’s auditor since 2021.

Houston, Texas
June 13, 2024

AMMO, Inc.
CONSOLIDATED BALANCE SHEETS

	<u>March 31, 2024</u>	<u>March 31, 2023</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 55,586,441	\$ 39,134,027
Accounts receivable, net	28,221,321	29,346,380
Inventories	45,563,334	54,344,819
Prepaid expenses	2,154,170	5,126,667
Current portion of restricted cash	-	500,000
Total Current Assets	<u>131,525,266</u>	<u>128,451,893</u>
Equipment, net	58,082,040	55,963,255
Other Assets:		
Deposits	349,278	7,028,947
Patents, net	4,539,290	5,032,754
Other intangible assets, net	111,049,067	123,726,810
Goodwill	90,870,094	90,870,094
Right of use assets - operating leases	2,000,093	1,261,634
Deferred income tax asset	1,487,088	-
TOTAL ASSETS	<u>\$ 399,902,216</u>	<u>\$ 412,335,387</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 23,156,495	\$ 18,079,397
Accrued liabilities	7,030,667	4,353,354
Current portion of operating lease liability	479,651	470,734
Note payable related party	-	180,850
Current portion of construction note payable	273,459	260,429
Insurance premium note payable	-	2,118,635
Total Current Liabilities	<u>30,940,272</u>	<u>25,463,399</u>
Long-term Liabilities:		
Contingent consideration payable	59,838	140,378
Construction note payable, net of unamortized issuance costs	10,735,241	10,922,443
Operating lease liability, net of current portion	1,609,836	903,490
Deferred income tax liability	-	2,309,592
Total Liabilities	<u>43,345,187</u>	<u>39,739,302</u>
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 March 31, 2024 and March 31, 2023, respectively	1,400	1,400
Common stock, \$0.001 par value, 200,000,000 shares authorized 120,531,507 and 118,562,806 shares issued and 119,181,067 and 118,294,478 outstanding at March 31, 2024 and March 31, 2023, respectively	119,181	118,294
Additional paid-in capital	396,730,170	391,940,374
Accumulated deficit	(37,620,566)	(18,941,825)
Treasury Stock	(2,673,156)	(522,158)
Total Shareholders' Equity	<u>356,557,029</u>	<u>372,596,085</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 399,902,216</u>	<u>\$ 412,335,387</u>

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

AMMO, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended March 31,		
	2024	2023	2022
Net Revenues			
Ammunition sales ⁽¹⁾	\$ 69,390,801	\$ 114,116,044	\$ 161,459,025
Marketplace revenue	53,942,076	63,149,673	64,608,516
Casing sales	21,721,695	14,174,084	14,201,625
	<u>145,054,572</u>	<u>191,439,801</u>	<u>240,269,166</u>
Cost of Revenues	<u>102,431,803</u>	<u>136,031,204</u>	<u>151,505,657</u>
Gross Profit	42,622,769	55,408,597	88,763,509
Operating Expenses			
Selling and marketing	1,370,079	4,729,540	7,310,216
Corporate general and administrative	29,583,274	24,980,079	16,986,344
Employee salaries and related expenses	16,703,822	15,679,135	13,615,439
Depreciation and amortization expense	13,542,791	13,278,762	13,702,148
Total operating expenses	<u>61,199,966</u>	<u>58,667,516</u>	<u>51,614,147</u>
Income/(Loss) from Operations	(18,577,197)	(3,258,919)	37,149,362
Other Expenses			
Other income	(332,593)	25,181	21,840
Interest expense	(446,473)	(632,062)	(637,797)
Total other expense	<u>(779,066)</u>	<u>(606,881)</u>	<u>(615,957)</u>
Income/(Loss) before Income Taxes	(19,356,263)	(3,865,800)	36,533,405
Provision for Income Taxes	(3,791,063)	730,238	3,285,969
Net Income/(Loss)	<u>(15,565,200)</u>	<u>(4,596,038)</u>	<u>33,247,436</u>
Preferred Stock Dividend	(3,122,049)	(3,105,034)	(2,668,649)
Net Income/(Loss) Attributable to Common Stock Shareholders	<u>\$ (18,687,249)</u>	<u>\$ (7,701,072)</u>	<u>\$ 30,578,787</u>
Net Income/(Loss) per share			
Basic	\$ (0.16)	\$ (0.07)	\$ 0.27
Diluted	<u>\$ (0.16)</u>	<u>\$ (0.07)</u>	<u>\$ 0.27</u>
Weighted average number of shares outstanding			
Basic	118,249,486	117,177,885	112,328,680
Diluted	<u>118,249,486</u>	<u>117,177,885</u>	<u>114,189,720</u>

(1) Included in revenue for the years ended March 31, 2024, 2023, and 2022 is excises taxes of \$6,155,524, \$9,789,897, and \$14,646,983, respectively.

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

AMMO, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	<u>Preferred Stock</u>		<u>Common Shares</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated (Deficit)</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Number</u>	<u>Par Value</u>	<u>Number</u>	<u>Par Value</u>				
Balance as of March 31, 2021	-	\$ -	93,099,967	\$ 93,100	\$202,073,968	\$ (41,819,539)	\$ -	\$160,347,529
Acquisition stock issuances	-	-	20,000,000	20,000	142,671,282	-	-	142,691,282
Common stock issued for exercised warrants	-	-	431,080	431	943,476	-	-	943,907
Common stock issued for cashless warrant exercise	-	-	374,584	375	(375)	-	-	-
Common stock issued for services and equipment	-	-	772,450	773	1,630,928	-	-	1,631,701
Employee stock awards	-	-	1,807,666	1,808	5,757,192	-	-	5,759,000
Stock grants	-	-	-	-	252,488	-	-	252,488
Issuance of Series A Preferred Stock, net of issuance costs	1,400,000	1,400	-	-	31,007,396	-	-	31,008,796
Warrant issued for services	-	-	-	-	1,090,076	-	-	1,090,076
Preferred stock dividends declared	-	-	-	-	-	(2,524,087)	-	(2,524,087)
Dividends accumulated on preferred stock	-	-	-	-	-	(144,562)	-	(144,562)
Net income	-	-	-	-	-	33,247,436	-	33,247,436
Balance as of March 31, 2022	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>116,485,747</u>	<u>\$116,487</u>	<u>\$385,426,431</u>	<u>\$ (11,240,752)</u>	<u>\$ -</u>	<u>\$374,303,566</u>

	<u>Preferred Stock</u>		<u>Common Shares</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated (Deficit)</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Number</u>	<u>Par Value</u>	<u>Number</u>	<u>Par Value</u>				
Balance as of March 31, 2022	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>116,485,747</u>	<u>\$116,487</u>	<u>\$385,426,431</u>	<u>(11,240,752)</u>	<u>\$ -</u>	<u>\$374,303,566</u>
Common stock issued for exercised warrants	-	-	200,003	200	101,306	-	-	101,506
Common stock issued for cashless warrant exercise	-	-	99,762	99	(99)	-	-	-
Employee stock awards	-	-	1,777,294	1,776	5,806,003	-	-	5,807,779
Stock grants	-	-	-	-	179,094	-	-	179,094
Warrants issued for services	-	-	-	-	427,639	-	-	427,639
Preferred stock dividends declared	-	-	-	-	-	(638,071)	-	(638,071)
Dividends accumulated on preferred stock	-	-	-	-	-	(144,618)	-	(144,618)
Preferred stock dividend	-	-	-	-	-	(2,322,346)	-	(2,322,346)
Net Loss	-	-	-	-	-	(4,596,038)	-	(4,596,038)
Treasury shares purchased	-	-	(268,328)	(268)	-	-	(522,158)	(522,426)
Balance as of March 31, 2023	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>118,294,478</u>	<u>\$118,294</u>	<u>\$391,940,374</u>	<u>\$ (18,941,825)</u>	<u>\$(522,158)</u>	<u>\$372,596,085</u>

	<u>Preferred Stock</u>		<u>Common Shares</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated (Deficit)</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Number</u>	<u>Par Value</u>	<u>Number</u>	<u>Par Value</u>				
Balance as of March 31, 2023	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>118,294,478</u>	<u>\$118,294</u>	<u>\$391,940,374</u>	<u>\$ (18,941,825)</u>	<u>\$(522,158)</u>	<u>\$372,596,085</u>
Common stock issued for exercised warrants	-	-	31,750	32	76,168	-	-	76,200
Employee stock awards	-	-	1,936,951	1,938	4,080,170	-	-	4,082,108
Stock grants	-	-	-	-	203,000	-	-	203,000
Common stock purchase options	-	-	-	-	430,457	-	-	430,457

Preferred stock dividends declared	-	-	-	-	-	(638,071)	-	(638,071)
Dividends accumulated on preferred stock	-	-	-	-	-	(144,618)	-	(144,618)
Preferred stock dividend	-	-	-	-	-	(2,330,852)	-	(2,330,852)
Net loss	-	-	-	-	-	(15,565,200)	-	(15,565,200)
Treasury shares purchased	-	-	(1,082,112)	(1,082)	-	-	(2,150,998)	(2,152,080)
Balance as of March 31, 2024	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>119,181,067</u>	<u>\$ 119,182</u>	<u>\$ 396,730,169</u>	<u>\$ (37,620,566)</u>	<u>\$ (2,673,156)</u>	<u>\$ 356,557,029</u>

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

AMMO, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOW

	For the Year Ended March 31,		
	2024	2023	2022
Cash flows from operating activities:			
Net Income/(Loss)	\$ (15,565,200)	\$ (4,596,038)	\$ 33,247,436
Adjustments to reconcile Net Loss to Net Cash provided by operations:			
Depreciation and amortization	18,813,897	17,519,949	17,339,093
Debt discount amortization	83,253	83,253	38,330
Employee stock awards	4,082,108	5,807,779	5,759,000
Stock grants	203,000	179,094	252,488
Common stock purchase options	430,457	-	-
Stock for services	-	-	4,200
Contingent consideration payable fair value	(80,540)	(63,764)	(385,750)
Allowance for credit losses	419,527	191,299	2,748,250
(Gain)/loss on disposal of assets	259,540	-	(12,044)
Reduction in right of use asset	476,252	629,140	720,491
Warrant issued for services	-	213,819	718,045
Deferred income taxes	(3,796,680)	730,238	1,536,481
Changes in Current Assets and Liabilities			
Accounts receivable	705,532	14,417,405	(20,707,052)
Due to related parties	-	15,000	657
Inventories	8,781,485	4,671,333	(43,149,234)
Prepaid expenses	4,028,696	2,763,855	1,996,287
Deposits	6,679,669	4,306,375	(8,826,504)
Accounts payable	5,077,098	(8,694,813)	9,930,191
Accrued liabilities	2,532,695	(1,970,078)	2,374,686
Operating lease liability	(499,448)	(647,480)	(732,468)
Net cash provided by operating activities	<u>32,631,341</u>	<u>35,556,366</u>	<u>2,852,583</u>
Cash flows from investing activities:			
Gemini acquisition	-	-	(50,517,840)
Purchase of equipment	(8,024,765)	(12,541,325)	(19,218,982)
Proceeds from disposal of assets	3,750	-	59,800
Net cash used in investing activities	<u>(8,021,015)</u>	<u>(12,541,325)</u>	<u>(69,677,022)</u>
Cash flow from financing activities:			
Payments on inventory facility, net	-	(825,675)	(265,422)
Proceeds from factoring liability	37,252,869	71,348,761	121,488,045
Payments on factoring liability	(37,252,869)	(71,834,432)	(122,844,562)
Payments on assumed debt from Gemini	-	-	(50,000,000)
Payments on note payable - related party	(180,850)	(684,921)	(625,147)
Payments on insurance premium note payment	(3,174,834)	(2,134,143)	(2,208,369)
Proceeds from construction note payable	-	1,000,000	-
Payments on construction note payable	(257,425)	(150,743)	-
Payments on note payable	-	-	(4,000,000)
Sale of preferred stock	-	-	35,000,000
Common stock issued for exercised warrants	76,200	101,506	943,907
Common stock issuance costs	-	-	(3,199,922)
Preferred stock dividends paid	(2,968,923)	(2,960,416)	(2,524,087)
Common stock repurchase plan	(2,152,080)	(522,426)	-
Net cash used in financing activities	<u>(8,657,912)</u>	<u>(6,662,489)</u>	<u>(28,235,557)</u>
Net increase/(decrease) in cash	15,952,414	16,352,552	(95,059,996)
Cash, beginning of period	39,134,027	23,281,475	118,341,471
Restricted cash, beginning of period	500,000	-	-
Cash and restricted cash, end of period	<u>\$ 55,586,441</u>	<u>\$ 39,634,027</u>	<u>\$ 23,281,475</u>
Restricted cash, end of period	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ -</u>
Cash, end of period	<u>\$ 55,586,441</u>	<u>\$ 39,134,027</u>	<u>\$ 23,281,475</u>

(Continued)



AMMO, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOW

	For the Year Ended March 31,		
	2024	2023	2022
Supplemental cash flow disclosures:			
Cash paid during the period for:			
Interest	\$ 667,063	\$ 665,043	\$ 626,571
Income taxes	\$ -	\$ 1,302,811	\$ -
Non-cash investing and financing activities:			
Operating lease liability	\$ 1,214,711	\$ 901,076	\$ 809,451
Insurance premium note payment	\$ 1,056,199	\$ 4,252,778	\$ 2,166,852
Dividends accumulated on preferred stock	\$ 144,618	\$ 144,618	\$ 144,562
Construction note payable	\$ -	\$ 10,237,032	\$ 387,968
Acquisition stock issuances	\$ -	\$ -	\$ 143,400,000
Warrant issued for services	\$ -	\$ -	\$ 1,090,077

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

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND BUSINESS ACTIVITY

We were formed under the name Retrospectiva, 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 475,681 (11,891,976 pre-split) of their outstanding shares 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 ("Reverse Split") of the issued and outstanding shares of the common stock of the Company. As a result of the reverse split, the previous issued and outstanding shares of common stock became 580,052 shares; no shareholder was reversed below 100 shares, and all fractional shares resulting from the reverse split were rounded up to the next whole share. All references to the outstanding stock have been retrospectively adjusted to reflect this split. 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). Under the terms of the Agreement, the Company issued 17,285,800 newly issued shares of common stock of the Company. In connection with this transaction the Company retired 475,681 shares of common stock and issued 500,000 shares of common stock to satisfy an issuance commitment. The acquisition was considered to be a capital transaction. The transaction was the equivalent to the issuance by PRIVCO of 604,371 shares to the Company's shareholders accompanied by a recapitalization. The weighted average number of outstanding shares has been adjusted for this transaction. (PRIVCO) subsequently changes its name to AMMO Munitions, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The 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 accounting principles generally accepted in the United States of America ("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 Estimates and Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended March 31, 2024, under "Management's Discussion and Analysis of Financial Condition and Results of Operations." We adopted Accounting Standards Update ("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 year ended March 31, 2024.

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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 year ended March 31, 2024. As of March 31, 2024, the Company has a goodwill carrying value of \$90,870,094, all of which is assigned to the Marketplace segment. However, due to declines in the value of the Company's common stock and market capitalization which have since stabilized, 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, 2025.

Accounts Receivable and Allowance for Credit Losses

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 March 31, 2024 and March 31, 2023, we reserved \$3,666,078 and \$3,246,551, respectively, of allowance for credit losses.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, we consider highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted Cash

We consider cash to be restricted when withdrawal or general use is legally restricted. In the year ended March 31, 2023, our restricted cash balance was comprised of cash on deposit with banks to secure the Construction Loan Agreement as discussed in Note 12. During the year ended March 31, 2024, the remaining balance of our restricted cash was released. In the case that there is a balance, 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.

We were a party to a license agreement with Jeff Rann, a well-known wild game hunter and spokesman for the firearm and ammunition industries. The license agreement, which expired February 2022, granted us through the exclusive worldwide rights to Mr. Rann's image rights and trademarks associated with him in connection with the marketing, promotion, advertising, sale, and commercial exploitation of all Jeff Rann Branded Products. We agreed to pay Mr. Rann 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 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 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 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 years ended March 31, 2024, 2023, and 2022, the Company recognized royalty expenses of \$22,754, \$99,268, and \$44,764 respectively under this agreement.



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In August 2018, we applied for additional patent coverage for the manufacturing methods or application of the Hybrid Luminescence Ammunition Technology on a variety of projectile and ammunition types. The costs of filing this patent were expensed.

On October 5, 2018, we completed the acquisition of SW Kenetics, Inc. AMMO Technologies, Inc. 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 Mmunition 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 (See Note 19). 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, 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 years ended March 31, 2024, 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 contract
- Determination of the transaction price
- Allocation of the transaction price to the separate performance allocation
- Recognition of revenue when performance obligations are satisfied

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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 it transfers 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.

Compliance fee revenue consists of fees charged to customers based on a percentage of the final price of an item at the time of purchase. 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 a 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 years ended March 31, 2024, 2023, and 2022, the Company's customers that comprised more than ten percent (10%) of total revenues and accounts receivable were as follows:

PERCENTAGES	For the Year Ended March 31, 2024		For the Year Ended March 31, 2023		For the Year Ended March 31, 2022	
	Revenues	Accounts Receivable	Revenues	Accounts Receivable	Revenues	Accounts Receivable
Customers:						
A	-	11.8%	12.2%	-	-	-
B	-	-	-	-	-	11.8%
	-	11.8%	12.2%	-	-	11.8%

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Disaggregated Revenue Information

The following table represent 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. The Company notes 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 Year Ended		
	March 31, 2024	March 31, 2023	March 31, 2022
Ammunition Sales⁽¹⁾	\$ 69,390,801	\$ 114,116,044	\$ 161,459,025
Marketplace Fee Revenue	53,942,076	63,149,673	64,608,516
Ammunition Casings Sales	21,721,695	14,174,084	14,201,625
Total Sales	\$ 145,054,572	\$ 191,439,801	\$ 240,269,166

(1) Included in revenue for the fiscal year ended March 31, 2024, 2023, and 2022 are excise taxes of \$6,155,524, \$9,789,897, and \$14,646,983, respectively.

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

All sales are recorded upon shipment and, depending on credit worthiness of customer, the payment terms will vary from thirty (30) to sixty (60) days. No refunds are allowed on any product shipped.

Each product manufactured by the Company has standard specifications and performance objectives. The Company has an extensive product testing program and, if the Company were given notice of a product defect by a customer, the Company would request the return of the product so that the manufacturing defect could be identified.

Advertising Costs

We expense advertising costs as they are incurred in selling and marketing expenses of operating expenses. Marketplace advertising costs are expenses as they are incurred in cost of revenues. We incurred advertising expenses of \$1,149,596, \$1,355,179, and \$1,823,060, of which \$384,002, \$1,068,700, and \$1,406,043 related to our ammunition segment, for the years ended March 31, 2024, 2023, and 2022, respectively. We incurred marketplace advertising expenses of \$765,594, \$286,479, and \$417,017 in cost of revenues for the years ended March 31, 2024, 2023 and 2022.

Fair Value of Financial Instruments

We measure options and warrants at fair value in accordance with Accounting Standards Codification 820 – Fair Value Measurement (“ASC 820”). The objective of ASC 820 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 specifies a valuation hierarchy based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s own assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets;

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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This hierarchy requires us to minimize the use of unobservable inputs and to use observable market data, if available, when estimating fair value.

We value all common stock issued for services on the date of the agreements, using the price at which shares were being sold to private investors or at the value of the services performed.

We valued warrants and common stock purchase options issued for services at their respective grants dates during the years ended March 31, 2024, 2023, and 2022 using valuation methods and assumptions that consider, among other factors, the fair value of the underlying stock, risk free interest rate, volatility, and expected life.

	<u>March 31, 2024</u>	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Risk free interest rate	4.1%	3.9%	1.21%-1.74%
Expected volatility	83.5%	77.5%	89.1%-90.7%
Expected term	5.75 years	2.5 years	2.5 years
Expected dividend yield	0%	0%	0%

	Quoted Active Markets for Identified Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
March 31, 2024				
Common stock purchase options	\$ -	\$ 430,457	\$ -	\$ 430,457
March 31, 2023				
Warrants issued for services	\$ -	\$ 427,639	\$ -	\$ 427,639
March 31, 2022				
Warrants issued for services	\$ -	\$ 1,090,077	\$ -	\$ 1,090,077

In connection with our acquisition of Gemini, we used the Level 2 inputs in estimating the fair value of the transaction. Please refer to Note 15.

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.

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Property and Equipment

We state property and 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 five to ten years. 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 income or expenses. 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.

Compensated Absences

We accrue a liability for compensated absences in accordance with Accounting Standards Codifications 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.

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 years ended March 31, 2024, 2023, and 2022, we recognized approximately \$6.2 million, \$9.8 million, and \$14.6 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.

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.

Concentrations of Credit Risk

Accounts at banks are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of March 31, 2024, our bank account balances exceeded federally insured limits, however, we have not incurred losses related to these deposits.

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.

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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.

The Company also received notice in October 2022 that an OSHA whistleblower complaint had been filed with the U.S. 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 OSHA 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.

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 which was completed and the arbitrator ordered closing briefs, which the parties exchanged. The Arbitrator has entered an Interim Award as well as a supplemental briefing award fees. The Parties have submitted their respective briefs on those issues. The Arbitrator will enter the final award in June, 2024, which is not appealable.

On April 30, 2023, Director and stockholder Steve Urvan filed suit in the Delaware Court of Chancery against the Company, and certain AMMO directors, former directors, employees, former employees and consultants. Urvan's claims include fraudulent inducement, unjust enrichment and violations of the Arizona Securities Act. The suit seeks a Court order for partial rescission of the Merger and compensatory damages of not less than \$140 million. The Company received a declination of coverage from one insurer. With the assistance of counsel, the Company is investigating additional available actions concerning that opinion, while continuing to pursue other available coverage concerning a separate policy. The Company and named defendants are in alignment in all material respects and reasonably believe at this date that Urvan's claims are without merit. The Company has engaged Delaware Court of Chancery litigation specialists to defend its interests in all respects in this case. The Company timely responded to the Urvan Complaint by filing a motion to dismiss. On August 1, 2023, AMMO 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 Delaware Court of Chancery consolidated AMMO's lawsuit against Urvan with Urvan's lawsuit against AMMO and the individual defendants. On September 18, 2023, AMMO filed an amended complaint that added a claim against Urvan for breach of the Arizona Securities Act. Urvan moved to dismiss AMMO's complaint in full. On December 18, 2023, the Court of Chancery heard argument on the parties' motions to dismiss in the consolidated action. On February 27, 2024, the Court issued an opinion resolving all pending motions to dismiss. The Court dismissed Urvan's aiding and abetting claims against the individual defendants, but it declined to dismiss Urvan's other claims against the individuals and declined to dismiss Urvan's claims against AMMO. The Court rejected Urvan's motion to dismiss AMMO's claims against him in its entirety. On May 8, 2024, the Court ordered a case schedule culminating in a five-day trial on July 28, 2025.

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On December 6, 2023, Steve Urvan initiated a separate action against the Company in his capacity as director under 8 *Del. C.* § 220(d) to inspect certain of the Company's books and records (the "Books and Records Action"). In the Books and Records Action, Mr. Urvan alleges that the Company wrongfully refused to provide him with access to certain categories of documents following demands that he made on the Company on March 3, 2023 and November 9, 2023. The Company asserted as an affirmative defense that Mr. Urvan's primary purpose for his demands is to obtain documents to support his claims in the Delaware Plenary Litigation, in which discovery was then stayed, and to undercut AMMO's positions before the SEC. The Court held a one-day trial on February 26, 2024 in Georgetown, Delaware. On February 27, 2024, the Court in the Delaware Plenary Litigation issued an opinion that had the effect of lifting the discovery stay. On February 28, 2024, AMMO informed the judge presiding over the Books and Records Action that "[i]n AMMO's view, the [Plenary Action] Opinion has effectively mooted this [Books and Records] action." On April 9, 2024, AMMO began producing documents in response to Mr. Urvan's demands pursuant to a Stipulation and Order Governing AMMO's Document Productions. The Court has not issued a post-trial ruling.

On January 18, 2024, Innovative Computer Professionals, Inc. d/b/a Digital Cash Processing ("DCP") filed a civil action in Minnesota state court against Outdoors Online, LLC d/b/a Gunbroker.com ("Gunbroker.com") for breach of contract (the "MN Action"). In the MN Action, DCP alleges that Gunbroker.com breached a May 2021 contract, pursuant to which DCP was to provide specified digital payment processing services, and it alleges \$100 million in damages. On February 7, 2024, Gunbroker.com removed the MN Action to the United States District Court for the District of Minnesota. On February 14, 2024, Gunbroker.com moved to dismiss the MN Action for lack of personal jurisdiction and for failure to adequately state a claim, or, in the alternative, to transfer the MN Action to the United States District Court for the District of Arizona (the "Motion"). The Motion has been fully briefed, argued, and submitted to the court. Gunbroker.com denies the allegations in the MN Action, and it plans to vigorously defend the claims asserted against it and assert counterclaims against DCP if and when it is required to answer. The Company does not feel as though it has a high level of risk exposure at this time.

We have accrued for contingencies totaling approximately \$1.4 million year ended March 31, 2024, respectively. There were no other known contingencies as of March 31, 2024.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326)," which replaces the current incurred loss impairment methodology for most financial assets with the current expected credit loss ("CECL") methodology. The series of new guidance amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. The guidance should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The guidance is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted.

In June 2022, the FASB issued ASU 2022-03, "Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions" which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The guidance also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction and requires specific disclosures for equity securities subject to contractual sale restrictions.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss. Additionally, it requires that a public entity (1) disclose an amount for "other segment items" by reportable segment, (2) provide all annual disclosures about a reportable segment's profit or loss and assets currently required by Topic 280 in interim periods, and (3) requires that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this proposed ASU and all existing segment disclosures in Topic 280. The new guidance is effective for annual periods beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The amendments in this proposed ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. We are currently evaluating the potential impact of these changes.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which enhances the transparency and decision usefulness of income tax disclosures. The ASU requires that public business entities on an annual basis (1) disclose specific categories in the effective tax rate reconciliation and (2) provide additional information for reconciling items that meet or exceed a quantitative threshold. Additionally, it requires all entities disclose the following information about income taxes paid on an annual basis: (1) the year-to-date amounts of income taxes paid disaggregated by federal (national), state, and foreign taxes and (2) the amount of income taxes paid disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than 5 percent of total income taxes paid. The amendments are effective for annual periods beginning after December 15, 2024. The amendments in this proposed ASU should be applied on a prospective basis, although retrospective application to all periods presented is permitted. Early adoption is permitted. We are currently evaluating the potential impact of these changes.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

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 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 1,708,830 shares of common stock. Due to the net loss attributable to common shareholders for the year ended March 31, 2024, potentially dilutive securities, which consists of 175,000 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 loss

from operations in the year ended March 31, 2023, there are no common shares added to calculate the dilutive loss per share for that period as the effect would be antidilutive. The Company excluded warrants of 2,406,946 for the year ended March 31, 2023 and warrants of 150,000 and equity incentive awards of 20,000 for the year ended March 31, 2022, from the weighted average diluted common shares outstanding because their inclusion would have been antidilutive.

**For the Year Ended
March 31,**

	2024	2023	2022
Numerator:			
Net income/(loss)	\$ (15,565,200)	\$ (4,596,038)	\$ 33,247,436
Less: Preferred stock dividends	(3,122,049)	(3,105,034)	(2,668,648)
Net income/(loss) attributable to common stockholders	\$ (18,687,249)	\$ (7,701,072)	\$ 30,578,788
Denominator:			
Weighted average shares of common stock - basic	118,249,486	117,177,885	112,328,680
Effect of dilutive common stock purchase warrants	-	-	1,861,040
Effect of dilutive equity incentive awards	-	-	-
	118,249,486	117,177,885	114,189,720
Basic earnings per share:			
Income/(loss) per share attributable to common stockholders - basic	\$ (0.16)	\$ (0.07)	\$ 0.27
Diluted earnings per share:			
Income/(loss) per share attributable to common stockholders - diluted	\$ (0.16)	\$ (0.07)	\$ 0.27

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – ACCOUNTS RECEIVABLE

Our net accounts receivable are summarized as follows:

	<u>March 31, 2024</u>	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Accounts receivable	\$ 31,887,399	\$ 32,592,931	\$ 47,010,336
Less: allowance for credit losses	(3,666,078)	(3,246,551)	(3,055,252)
	<u>\$ 28,221,321</u>	<u>\$ 29,346,380</u>	<u>\$ 43,955,084</u>

The following presents a reconciliation of our allowance for credit losses for the periods presented:

March 31, 2022	\$ 3,055,252
Increase in allowance	2,160,323
Write-off of uncollectible amounts	(1,969,024)
March 31, 2023	<u>3,246,551</u>
Increase in allowance	1,530,891
Write-off of uncollectible amounts	(1,111,364)
March 31, 2024	<u>\$ 3,666,078</u>

NOTE 5 – INVENTORIES

At March 31, 2024 and March 31, 2023, the inventory balances are composed of:

	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Finished product	\$ 11,055,061	\$ 14,362,514
Raw materials	24,158,244	23,898,596
Work in process	10,350,029	16,083,709
	<u>\$ 45,563,334</u>	<u>\$ 54,344,819</u>

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2024 and March 31, 2023:

	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Leasehold Improvements	\$ 257,009	\$ 257,009
Building and Improvements	29,143,445	28,623,329
Furniture and Fixtures	439,990	384,650
Vehicles	153,254	153,254
Equipment	45,467,137	40,233,186
Tooling	143,710	143,710
Construction in Progress	2,785,616	734,781
Total property and equipment	\$ 78,390,161	\$ 70,529,919
Less accumulated depreciation	(20,308,121)	(14,566,664)
Net property and equipment	<u>\$ 58,082,040</u>	<u>\$ 55,963,255</u>

Depreciation Expense for the years ended March 31, 2024, 2023, and 2022 totaled \$5,751,023, \$4,452,908, and \$4,266,126, respectively. Of these totals \$4,777,642, \$3,747,723, and \$3,101,929 were included in cost of goods sold for the years ending March 31, 2024, 2023, and 2022. Additionally, \$973,381, \$705,185, and \$1,164,197 were included in depreciation and amortization expenses in operating expenses.

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – 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’s 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 March 31, 2024.

NOTE 8 – 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 March 31, 2024 and March 31, 2023. Interest expense recognized on the Factoring Liability for the year ended March 31, 2024 was \$185,319, respectively, including \$62,500 of amortization of the commitment fee, for the year ended March 31, 2023, \$153,646, including \$37,500 of amortization of the commitment fee, for the year ended March 31, 2022, \$327,746, including \$100,000 of amortization of the commitment fee.

On June 17, 2021, this agreement was amended which extended the maturity date 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 9 – 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. No outstanding balance remained as of March 31, 2024 and March 31, 2023. There was no interest expense recognized on the Inventory Credit Facility for the year ended March 31, 2024. Interest expense for the year ended March 31, 2023 was \$6,580, and for the year ended March 31, 2022 was \$40,940, including \$8,561 of amortization of the annual fee.

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

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NOTE 10 – 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. The Scottsdale lease has been extended through 2029 and does not include a renewal option. In August of 2021 we extended the lease of our Atlanta offices through May of 2027, accordingly we increased our Right of Use Assets and Operating Lease Liabilities by \$501,125 at September 30, 2021. In January of 2022, we extended the lease of our second Manitowoc, WI location and increased our Right of Use Assets and Operating Lease Liabilities by \$308,326. We terminated our lease agreement in Marietta during the year ended March 31, 2024 and decreased our Right of Use Asset and Operating Lease Liabilities by \$38,185. We also 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 March 31, 2024 and March 31, 2023, total Right of Use Assets were \$2,000,093 and \$1,261,634, respectively. The increase of \$738,459 as compared to prior year in Right of Use Assets is primarily due to the Scottsdale lease that has been extended through 2029. As of March 31, 2024 and March 31, 2023, total Operating Lease Liabilities were \$2,089,487 and \$1,374,224, respectively. The current portion of our Operating Lease Liability on March 31, 2024 and March 31, 2023 is \$479,651 and \$470,734, respectively, and is reported as a current liability. The remaining \$1,609,836 of the total \$2,089,487 for the year ended March 31, 2024 and the \$903,490 of the total \$1,374,224 for the year ended 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 year ended March 31, 2024 was \$663,826 including \$642,105 of operating lease expense and \$21,722 of other lease associated expenses such as association dues, taxes, utilities, and other month to month rentals. Consolidated lease expense for the year ended March 31, 2023 was \$881,171 including \$861,777 of operating lease expense and \$19,394 of other lease associated expenses such as association dues, taxes, utilities, and other month to month rentals. Consolidated lease expense for the year ended March 31, 2022 was \$1,221,473 including \$1,177,589 of operating lease expense and \$43,884 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 4.0 years and 10.0%, respectively at March 31, 2024 and were 3.3 years and 10.0%, respectively at March 31, 2023.

Future minimum lease payments under non-cancellable leases as of March 31, 2024 are as follows:

Years Ended March 31,	
2025	\$ 666,233
2026	665,069
2027	581,574
2028	379,067
2029	258,102
	2,550,045
Less: Amount Representing Interest	(460,558)
	\$ 2,089,487

NOTE 11 – NOTES PAYABLE – RELATED PARTY

In connection with the acquisition of the casing division of Jagemann Stamping Company (“JSC”), a \$10,400,000 promissory note was executed on March 14, 2020. The promissory note, under which \$500,000 was paid on March 25, 2019 using funds raised for the acquisition, had a remaining balance at March 31, 2019 of \$9,900,000. On April 30, 2019, the original due date of the note was subsequently extended to April 1, 2020. The note bears interest per annum at approximately 4.6% payable in arrears monthly. In May of 2019, the Company paid \$1,500,000 on the balance of the note. The note is secured by all the equipment purchased from JSC. JSC owned at least five percent (5%) of our shares outstanding from March 2019 through March 16, 2021.

Post-closing of the transaction, it was made apparent that certain equipment that was agreed to be delivered free and clear by the Seller was not achievable as Seller was not able to purchase equipment that Seller had leased. Accordingly, the remaining value of the promissory note was reduced by \$2,596,200. As a result of the change to the purchase price of the transaction, the Company reduced Equipment for a net value of \$1,871,306, decreased Other Intangible Assets by \$766,068, increased Accounts Receivable by \$31,924, and recorded an increase to Deposits for \$9,250 worth of equipment that the Company agreed to transfer back to Seller. Consequently, accumulated amortization has decreased by \$159,530. Additionally, the Company entered into a lease to gain possession of the assets that were originally to be transferred.

On June 26, 2020, the Company, Enlight Group II, LLC (“Enlight”), the Company’s wholly owned subsidiary and JSC entered into a Settlement Agreement pursuant to which the parties mutually agreed to settle all disputes and mutually release each other from liabilities related to the Amended APA occurring prior to June 26, 2020. Pursuant to the Settlement Agreement, the Company shall pay JSC \$1,269,977 and shall provide JSC with: (i) two new promissory notes, a note of \$5,803,800 related to the Seller Note and note of \$2,635,797 for inventory and services, which was reclassified from accounts payable, both with a maturity date of August 15, 2021, (ii) general business security agreements granting JSC a security interest in all personal property of the Company. Pursuant to the Notes, the Company is obligated to make monthly payments totaling \$204,295 to JSC. In addition, the Notes have a mandatory prepayment provision that comes into effect if the Company conducts a publicly registered offering. Pursuant to such provision, the Company: (a) upon the closing of an Offering of less than \$10,000,000 would be obligated to pay the lesser of ninety percent (90%) of the Offering proceeds or seventy (70%) of the then aggregate outstanding balance of the Notes; and (b) upon the closing of an Offering of more than \$10,000,000 would be obligated to pay one hundred percent (100%) of the then aggregate outstanding balance of the Notes. The Company was granted an option to repurchase up to 1,000,000 of the shares of the Company’s common stock issued to JSC under the Amended APA at a price of \$1.50 per share through April 1, 2021 so long as there are no defaults under the

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As a result of the Settlement Agreement, the Company agreed to forego \$1,000,000 in Construction in Progress that the parties had previously agreed to exchange. As a result, the Company recognized a loss in operating expenses for the year ended March 31, 2021.

On November 5, 2020, the Company paid \$6,000,000 to JSC allocated as follows: (i) payment in full of Note A, representing the balance due from the Company to JSC relating to the acquisition of Jagemann Munition Components in March 2019 and (ii) \$592,982 remitted in partial payment of Note B, resulting in the parties' execution of Amended Note B which has a starting principal balance of \$1,687,664 ("Amended Note B"). The Amended Note B principal balance carries a 9% per annum interest rate and is amortized equally over the thirty six (36) month term. As a result of the payment in full of Note A JSC shall release the accompanying security interest in Company assets which secured Note A. Concurrently, upon entry into Amended Note B, JSC and the Company entered into the First Amendment to General Business Security Agreement to reflect a revised list of collateral in which JSC has a security interest. The total interest expense recognized on Note A was \$216,160 for the year ended March 31, 2021. The total interest expense recognized on the original Note B was \$62,876 for the year ended March 31, 2021.

The Company did not have a balance on Amended Note B at March 31, 2024 and there was a balance of \$180,850 at March 31, 2023. The Company recognized \$1,788, \$48,665, and \$110,518, in interest expense on Amended Note B for the years ended March 31, 2024, 2023, and 2022, respectively.

On January 22, 2021, the Company repurchased 1,000,000 shares of the Company's common stock issued to JSC at a price of \$1.50 per share pursuant to the Amended APA.

NOTE 12 – 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 specifies 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"). The first advance of Loan funds by Hiawatha was made on October 14, 2021 in the amount of \$329,843. We received advances of Loan funds approximately every month as our "owner's equity" was fully funded into the ongoing new plant construction project. 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. Under the terms of the Loan Agreement, we are required to make monthly payments of \$64,620 which consists of principal and interest until the maturity date, at which time the remaining principal balance of the Loan would become due.

We can prepay the Note in whole or in part starting in July 2022 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.

During the year ended March 31, 2023, approximately \$11.2 million of Loan funds were advanced including \$1.0 million of cash collateral or restricted cash as security for the Loan. We made \$257,425 and \$150,743 in principal payments for the year ended March 31, 2024 and March 31, 2023, respectively. 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 year ended March 31, 2024, the remaining \$500,000 of restricted cash was released, resulting in a zero balance for restricted cash as of March 31, 2024.

AMMO, INC.
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NOTE 13 – 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 year ended March 31, 2022, we issued 23,385,780 shares of common stock as follows:

- 20,000,000 shares were issued in connection with our merger of Gemini Direct Investments, LLC valued at \$142,691,282
- 431,080 shares were issued to investors for exercised warrants valued for \$943,907
- 374,584 shares were issued for cashless exercise of 443,110 warrants
- 772,450 shares valued at \$1,631,701 were issued for services and equipment provided to the Company
- 1,807,666 shares valued at \$5,759,000 were issued to employees, members of the Board of Directors, and members of the Advisory Committee as compensation

During the year ended March 31, 2023, we issued 2,077,059 shares of common stock as follows:

- 200,003 shares were issued to investors for exercised warrants valued for \$101,506
- 99,762 shares were issued for cashless exercise of 100,000 warrants
- 1,777,294 shares valued at \$5,807,779 were issued to employees, members of the Board of Directors, and members of the Advisory Committee as compensation

During the year ended March 31, 2024, we issued 1,968,701 shares of common stock as follows:

- 31,750 shares were issued to investors for exercised warrants valued for \$76,200
- 1,936,951 shares valued at \$4,082,108 were issued to employees, members of the Board of Directors, and members of the Advisory Committee as compensation

At March 31, 2024, 2023, and 2022, outstanding and exercisable stock purchase warrants consisted of the following:

	Number of Shares	Weighted Averaged Exercise Price	Weighted Average Life Remaining (Years)
Outstanding at March 31, 2021	3,607,945	\$ 2.31	3.24
Granted	200,000	0.01	3.92
Exercised	(874,190)	1.76	-
Forfeited or cancelled	-	-	-
Outstanding at March 31, 2022	2,933,755	\$ 2.32	2.29
Exercisable at March 31, 2022	2,933,755	\$ 2.32	2.29
	Number of Shares	Weighted Averaged Exercise Price	Weighted Average Life Remaining (Years)
Outstanding at March 31, 2022	2,933,755	\$ 2.32	2.29
Granted	150,000	0.01	4.5
Exercised	(300,003)	0.34	-
Forfeited or cancelled	(322,806)	2.00	-
Outstanding at March 31, 2023	2,460,946	\$ 2.46	1.59
Exercisable at March 31, 2023	2,460,946	\$ 2.46	1.59
	Number of Shares	Weighted Averaged Exercise Price	Weighted Average Life Remaining (Years)
Outstanding at March 31, 2023	2,460,946	\$ 2.46	1.59
Exercised	(31,750)	2.40	-
Forfeited or cancelled	(720,366)	3.19	-
Outstanding at March 31, 2024	1,708,830	\$ 2.16	1.09
Exercisable at March 31, 2024	1,708,830	\$ 2.16	1.09

As of March 31, 2024, we had 1,708,830 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 approximately 1% of the warrants until August 2024, and approximately 99% until February 2026; (3) warrants to purchase 77,500 shares of Common Stock at an exercise price of \$2.40 until September 2024, and (4) warrants to purchase 386,311 shares of Common Stock at an exercise price of \$2.63 until November 2025.

Option Granted

During the year ended March 31, 2024, 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 \$430,457 in expense related to the Options for year ended March 31, 2024.

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

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NOTE 14 – 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 Series A Cumulative Redeemable Perpetual Preferred Stock (“Series A Preferred Stock”), as to dividend rights and rights as to the distribution of assets upon the Company’s liquidation, dissolution or winding-up, ranks: (1) senior to all classes or series of Common Stock and to all other capital stock issued by the Company expressly designated as ranking junior to the Series A Preferred Stock; (2) on parity with any future class or series of the Company’s capital stock expressly designated as ranking on parity with the Series A Preferred Stock; (3) junior to any future class or series of the Company’s capital stock expressly designated as ranking senior to the Series A Preferred Stock; and (4) junior to all the Company’s existing and future indebtedness.

The Series A Preferred Stock has no stated maturity and is not subject to mandatory redemption or any sinking fund. In the event of the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares for the Series A Preferred Stock are entitled to be paid out of the Company’s assets legally available for distribution to its stockholders (*i.e.*, after satisfaction of all the Company’s liabilities to creditors, if any) an amount equal to \$25.00 per share of the Series A Preferred Stock, plus any amount equal to any accumulated and unpaid dividends to the date of payment before any distribution or payment may be made to holders of shares of Common Stock or any other class of or series of the Corporation’s capital stock ranking, as to rights to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up, junior to 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.

On May 19, 2021, we entered into an underwriting agreement (the “Underwriting Agreement”) with Alexander Capital, L.P., as representative of several underwriters (collectively, the “Underwriters”), relating to a firm commitment public offering of 1,097,200 newly issued shares of our 8.75% Series A Preferred Stock at a public offering price of \$25.00 per share. Under the terms of the Underwriting Agreement, we granted the Underwriters a 45-day option to purchase up to an additional 164,580 shares of Series A Preferred Stock from us. The gross proceeds to us from the sale of 1,097,200 shares of Series A Preferred Stock, before deducting underwriting discounts and commissions and estimated offering expenses payable by us, was \$27,430,000. The closing of the offering took place on May 21, 2021.

On May 25, 2021, we entered into an additional underwriting agreement with Alexander Capital, L.P. relating to a firm commitment public offering of 138,220 newly issued shares of our Series A Preferred Stock at a public offering price of \$25.00 per share. The closing of the offering took place on May 27, 2021. The gross proceeds to us from the sale of 138,220 shares of Series A Preferred Stock, before deducting underwriting discounts and commissions and estimated offering expenses payable by us, were \$3,455,500. Additionally, the Underwriters exercised its previously announced over-allotment option to purchase 164,580 shares of Series A Preferred Stock pursuant to that certain Underwriting Agreement dated May 19, 2021, by and between us and Alexander Capital, L.P., as representative of the several underwriters identified therein. We closed the exercise of the over-allotment option on May 27, 2021. The gross proceeds from the exercise of the over-allotment option were \$4,114,500, before deducting underwriting discounts and commissions.

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Preferred dividends accumulated as of March 31, 2022 were \$144,562. On August 27, 2021, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning May 21, 2021 (the first issuance date of the Series A Preferred Stock) through and including June 30, 2021 payable on September 15, 2021 to holders of record of Series A Preferred Stock on August 31, 2021 equal to \$0.241246528 per share. Dividends totaling \$337,745 were paid on September 15, 2021. On November 17, 2021, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning July 1, 2021 through and including December 14, 2021 payable on December 15, 2021 to holders of record of Series A Preferred Stock on November 30, 2021 equal to \$1.01475694444444 per share. Dividends totaling \$1,420,700 were paid on December 15, 2021. On February 18, 2022, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning December 15, 2021 through and including March 14, 2022 payable on March 15, 2022 to holders of record of Series A Preferred Stock on February 28, 2022 equal to \$0.546875 per share. Dividends totaling \$765,642 were paid on March 15, 2022.

Preferred dividends accumulated as of March 31, 2023 were \$144,618. On February 17, 2023, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning December 15, 2022 through and including March 14, 2023 payable on March 15, 2023 to holders of record of Series A Preferred Stock on February 28, 2023 equal to \$0.546875 per share. Dividends totaling \$765,625 were paid on March 15, 2023. On November 18, 2022, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning September 15, 2022 through and including December 14, 2022 payable on December 15, 2022 to holders of record of Series A Preferred Stock on November 30, 2022 equal to \$0.5529514 per share. Dividends totaling \$774,132 were paid on December 15, 2022. On August 17, 2022, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning June 15, 2022 through and including September 14, 2022 payable on September 15, 2022 to holders of record of Series A Preferred Stock on August 31, 2022 equal to \$0.55902778 per share. Dividends totaling \$782,639 were paid on September 15, 2022. On May 12, 2022, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning March 15, 2022 through and including June 14, 2022 payable on June 15, 2022 to holders of record of Series A Preferred Stock on May 31, 2022 equal to \$0.559027777777778 per share. Dividends totaling \$782,639 were paid on June 15, 2022.

Preferred dividends accumulated as of March 31, 2024 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. On February 6, 2024, the Board of Directors of the Company declared a dividend on the Company's Series A Preferred Stock for the period beginning December 15, 2023 through and including March 14, 2024 payable on March 15, 2024 to holders of record of Series A Preferred Stock on February 29, 2024 equal to \$0.5529514 per share. Dividends totaling \$774,132 were paid on March 15, 2024.

NOTE 15 – ACQUISITIONS

Gemini Direct Investments, LLC

On April 30, 2021 (the "Effective Date") 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 ("Sub"), Gemini Direct Investments, LLC, a Nevada limited liability company ("Gemini"), and Steven F. Urvan, an individual (the "Seller"), whereby Sub merged with and into Gemini, with Sub surviving the merger as a wholly owned subsidiary of the Company (the "Merger"). At the time of the Merger, Gemini had nine (9) subsidiaries, all of which are related to Gemini's ownership of the GunBroker business. GunBroker is an on-line auction marketplace dedicated to firearms, hunting, shooting, and related products. The Merger was completed on the Effective Date.

In consideration of the Merger, on the terms and subject to the conditions set forth in the Merger Agreement, on the Effective Date, (i) the Company assumed and repaid an aggregate amount of indebtedness of Gemini and its subsidiaries equal to \$50,000,000 (the "Assumed Indebtedness"); and, (ii) the issued and outstanding membership interests in Gemini (the "Membership Interests"), held by the Seller, automatically converted into the right to receive (A) \$50,000,000 (the "Cash Consideration"), and (B) 20,000,000 shares of common stock of the Company, \$0.001 par value per share (the "Stock Consideration").

In connection with the Merger Agreement, the Company and the Seller agreed that the Stock Consideration consisted of: (a) 14,500,000 shares issued without being held in escrow or requiring prior stockholder approval; (b) 4,000,000 shares issued subject to the Pledge and Escrow Agreement; and (c) 1,500,000 shares that will not be issued prior to the Company obtaining stockholder approval for the issuance (the "Additional Securities").

The total estimated consideration consisted of cash payment of \$50,000,000 less \$1,350,046 of acquired cash, a working capital adjustment of \$2,000,000, debt assumption and repayment upon closing of \$50,000,000, contingent consideration of \$10,755,000 for 1,500,000 Additional Securities, and 18,500,000 shares of AMMO Inc. Common Stock. The shares were valued at \$7.17 per share, the five-day average closing price of the Company's Common Stock immediately preceding the signing of the binding agreement.

Pursuant to the Merger Agreement, the Company completed a Post-Closing Adjustment following the close of the Merger equal to the Closing Working Capital minus the Estimated Working Capital at closing of the Merger. Accordingly, the Company received a cash payment of \$129,114 and adjusted the \$2,000,000 Estimated Working Capital Adjustment in the fair value of the consideration transferred to \$1,870,886.

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In accordance with the acquisition method of accounting for business combinations, the assets acquired, and the liabilities assumed have been recorded at their respective fair values. The consideration in excess of the fair values of assets acquired, and liabilities assumed are recorded as goodwill, which we expect to be deductible for tax purposes. The goodwill consists largely of the growth and profitability expected from this Merger.

The fair value of the consideration transferred was valued as follows:

Cash	\$	48,649,954
Working capital adjustment		1,870,886
Contingent consideration		10,755,000
Common stock		132,645,000
Assumed debt		50,000,000
	\$	<u>243,920,840</u>

The allocation for the consideration recorded for the acquisition is as follows:

Accounts receivable, net	\$	17,002,362
Prepaid expenses		478,963
Equipment		1,051,980
Deposits		703,389
Other Intangible assets ⁽¹⁾		146,617,380
Goodwill ⁽¹⁾		90,870,094
Right of use assets - operating leases		612,727
Accounts payable		(12,514,919)
Accrued expenses		(196,780)
Operating lease liability		(704,356)
Total Consideration	\$	<u>243,920,840</u>

(1) Other intangible assets consist of Tradenames, Customer Relationships, Intellectual Property, and other tangible assets related to the acquired business.

We recorded approximately \$1.3 million in transaction costs in the year ended March 31, 2022 related to the above acquisition.

Unaudited Pro Forma Results of Operations

These pro forma results of operations give effect to the acquisition as if it had occurred on April 1, 2021. Material pro forma adjustments include the removal of approximately \$1.8 million of interest expenses and debt discount amortization and the addition of approximately \$0.9 million of depreciation and amortization expenses.

INCOME STATEMENT DATA	For the Year Ended March 31, 2022	
Net revenues	\$	248,314,587
Net income	\$	37,793,924

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations and financial position that would have been achieved had the acquisition been completed and taken place on the dates indicated or the future consolidated results of operations or financial position of the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 – ACCRUED LIABILITIES

At March 31, 2024 and March 31, 2023, accrued liabilities were as follows:

	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Accrued FAET	\$ 1,145,937	\$ 1,808,065
Accrued bonus program	1,185,877	-
Accrued professional fees	1,134,368	736,323
Accrued payroll	964,661	430,344
Other accruals	417,496	618,243
Income taxes payable	359,356	403,739
Unearned revenue	1,822,972	101,593
Accrued sales commissions	-	252,366
Accrued interest	-	2,681
Accrued liabilities	<u>\$ 7,030,667</u>	<u>\$ 4,353,354</u>

NOTE 17 – RELATED PARTY TRANSACTIONS

During the year ended March 31, 2024, 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 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 March 31, 2024 as a result of this relationship. Additionally, we owed \$150,866 to Jagemann Precision Tooling, a division of JSC, at March 31, 2024.

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. 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 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.

On November 3, 2022, AMMO, Inc. (the "Company") entered into a Settlement Agreement (the "Settlement Agreement") with Steven F. Urvan and Susan T. Lokey (collectively with each of their respective affiliates and associates, the "Urvan Group").

Pursuant to the Settlement Agreement, the Urvan Group has agreed to withdraw its notice of stockholder nomination of its seven director candidates (the "Urvan Candidates") and its demand to inspect books and records, pursuant to Section 220 of the General Corporation Law of the State of Delaware, and the Company agreed to immediately increase the size of the Board from seven to nine directors and appoint Christos Tsentas and Wayne Walker (each, a "New Director" and the New Directors together with Mr. Urvan, the "Urvan Group Directors") to the Board to serve as directors with terms expiring at the 2022 Annual Meeting of Stockholders (the "2022 Annual Meeting"). The Company will include the Urvan Group Directors in its director candidates slate for the 2022 Annual Meeting and any subsequent Annual Meeting of Stockholders of the Company occurring prior to the Termination Date (as defined below). The Company has agreed to not increase the size of the Board above nine directors prior to the Termination Date unless the increase is approved by at least seven directors. Mr. Wagenhals will continue to serve as a director and Chairman of the Board.

Unless otherwise mutually agreed to in writing by each party, the Settlement Agreement will remain in effect until the date that is the earlier of (i) 30 days prior to the earlier of (A) the deadline set forth in the notice requirements of Federal "Universal Proxy Rules" promulgated under Rule 14a-19(a) and Rule 14a-19(b) under the Securities Exchange Act of 1934, as amended (the "UPR Deadline") relating to the Company's 2023 Annual Meeting of Stockholders (the "2023 Annual Meeting") and (B) any deadline that may be set forth in the Company's Amended and Restated Certificate of Incorporation (as amended from time to time, the "Certificate") or Bylaws (the "Bylaws") following the execution of the Settlement Agreement relating to the nomination of director candidates for election to the Board at the 2023 Annual Meeting, and (ii) 90 days prior to the first anniversary of the 2022 Annual Meeting (such date, the "Termination Date"). However, if the Company notifies Mr. Urvan in writing at least 15 days prior to such Termination Date that the Board irrevocably offers to re-nominate the Urvan Group Directors for election at the 2023 Annual Meeting and Mr. Urvan accepts such offer within 15 days of receipt of such notice, the Termination Date will be automatically extended until the earlier of (i) 30 days prior to the earlier of (A) the UPR Deadline relating to the Company's 2024 Annual Meeting of Stockholders (the "2024 Annual Meeting") and (B) any deadline that may be set forth in the Certificate or the Bylaws following execution of the Settlement Agreement relating to the nomination of director candidates for election to the Board at the 2024 Annual Meeting, and (ii) 90 days prior to the first anniversary of the 2023 Annual Meeting. Notwithstanding the foregoing, the "Termination Date" shall not occur prior to 20 days after Mr. Urvan's departure from the Board.

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Pursuant to the Settlement Agreement, the Company will suspend the previously announced separation of Company into Action Outdoor Sports, Inc. and Outdoor Online, Inc., pending the further evaluation of strategic options by the Board. The Company paid approximately \$500,000 of the Urvan Group's costs, fees, and expenses per the terms of the Settlement Agreement. Additionally, the Company issued 125,000 shares of Common Stock for a total value of \$437,500 to an employee and issued 110,000 shares of Common Stock for a total value of \$385,000 to an independent contractor as a result of termination without cause per the terms of the Settlement Agreement.

The foregoing summary of the Settlement Agreement does not purport to be complete and is subject to, and qualified in its entirety, by reference to the full text of the Settlement Agreement, a copy of which was previously filed as Exhibit 10.1 in the Form 8-K filed with the SEC on November 7, 2022, and incorporated herein by reference.

During the year ended March 31, 2023, we paid \$551,916 in service fees to two independent contractors of which \$223,333 were created as a result of termination without cause as a result of our Proxy Settlement Agreement. The two independent contractors were issued 141,419 shares of our common stock for a total value of \$494,967 in addition to the issuances described in the foregoing paragraphs. We issued 45,000 shares in the aggregate to its advisory committee members for service for a total value of \$129,750. 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. We recognized \$215,300 in Marketplace Revenue for the year ended March 31, 2022 that was attributable to that relationship. There was \$182,344 included in our Accounts Receivable at March 31, 2023 as a result of this relationship.

During the year ended March 31, 2022, we paid \$229,083 in service fees to an independent contractor and we issued 60,000 shares in the aggregate to its advisory committee members for service for a total value of \$173,000. Through our acquisition of Gemini, a related party relationship was created through one of our Members of the Board of Directors by ownership of an entity that transacts with Gemini. We recognized \$1,042,277 in Marketplace Revenue for the year ended March 31, 2022 that was attributable to that relationship. There was \$139,164 included in our Accounts Receivable at March 31, 2022 as a result of this relationship.

In connection with the acquisition of the casing division of JSC, a promissory note was executed. On April 30, 2019, the note was subsequently extended to April 1, 2020. The note bears interest per annum at approximately 4.6% payable in arrears monthly. On June 26, 2020, the Company extended the promissory note until August 15, 2021. As of March 31, 2021, we accrued interest of \$352,157 related to the note. The was paid in full on November 5, 2020. JSC owned at least five percent (5%) of our shares outstanding from March 2019 through March 16, 2021.

In October of 2019, it was made apparent that certain equipment that was agreed to be delivered free and clear by the Seller was not achievable as Seller was not able to purchase equipment that Seller had leased. Accordingly, the remaining value of the promissory note was reduced by \$2,596,200. As a result of the change to the purchase price of the transaction, the Company reduced Equipment for a net value of \$1,871,306, decreased Other Intangible Assets by \$766,068, increased Accounts Receivable by \$31,924, and recorded an increase to Deposits for \$9,250 worth of equipment that the Company agreed to transfer back to Seller. Consequently, accumulated amortization has decreased by \$159,530. Additionally, the Company entered into a lease to gain possession of the assets that were originally to be transferred.

Through the Administrative and Management Services Agreement the Company with JSC, the Company purchased approximately incurred \$2.0 million in inventory support services, and \$170,355 of rent expenses for the year ended March 31, 2023. Through the Administrative and Management Services Agreement the Company with JSC, the Company purchased approximately \$1.7 million in inventory support services, and \$408,852 of rent expenses for the year ended March 31, 2022.

On June 26, 2020, the Company and JSC entered into a Settlement Agreement pursuant to which the parties mutually agreed to settle all disputes and mutually release each other from liabilities related to the Amended APA occurring prior to June 26, 2020. Pursuant to the Settlement Agreement, the Company shall pay JSC \$1,269,977 and shall provide JSC with: (i) two new promissory notes, a note of \$5,803,800 related to the Seller Note and note of \$2,635,797 for inventory and services, both with a maturity date of August 15, 2021, (ii) general business security agreements granting JSC a security interest in all personal property of the Company. Pursuant to the Notes, the Company is obligated to make monthly payments totaling \$204,295 to JSC. In addition, the Notes have a mandatory prepayment provision that comes into effect if the Company conducts a publicly registered offering. Pursuant to such provision, the Company: (a) upon the closing of an Offering of less than \$10,000,000 would be obligated to pay the lesser of ninety percent (90%) of the Offering proceeds or seventy (70%) of the then aggregate outstanding balance of the Notes; and (b) upon the closing of an Offering of more than \$10,000,000 would be obligated to pay one hundred percent (100%) of the then aggregate outstanding balance of the Notes. The Company was granted an option to repurchase up to 1,000,000 of the shares of the Company's common stock issued to JSC under the Amended APA at a price of \$1.50 per share through April 1, 2021 so long as there are no defaults under the Settlement Agreement.

On November 5, 2020, the Company paid \$6,000,000 to JSC allocated as follows: (i) payment in full of Note A, representing the balance due from the Company to JSC relating to the acquisition of Jagemann Munition Components in March 2019 and (ii) \$592,982 remitted in partial payment of Note B, resulting in the parties' execution of Amended Note B which has a starting principal balance of \$1,687,664 ("Amended Note B"). The Amended Note B principal balance carries a 9% per annum interest rate and is amortized equally over the thirty six (36) month term. As a result of the payment in full of Note A JSC shall release the accompanying security interest in Company assets which secured Note A. Concurrently, upon entry into Amended Note B, JSC and the Company entered into the First Amendment to General Business Security Agreement to reflect a revised list of collateral in which JSC has a security interest.

The Company paid off the balance of Amended Note B during the year ended March 31, 2024. The Company's balance of Amended Note B was \$180,850 and \$865,771 at March 31, 2023 and 2022, respectively. The Company recognized \$1,788, \$48,665, \$110,518, and \$60,100 in interest expense on Amended Note B for the years ended March 31, 2024, 2023, and 2022, respectively.

On January 22, 2021, the Company repurchased 1,000,000 shares of the Company's common stock issued to JSC at a price of \$1.50 per share

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NOTE 18 – INCOME TAXES

The income tax (provision) benefit for the periods shown consist of the following:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Current			
US Federal	\$ -	\$ -	\$ (1,302,811)
US State	-	-	(446,677)
Total current provision	-	-	(1,749,488)
Deferred			
US Federal	3,004,239	(578,679)	(7,727,011)
US State	786,824	(151,559)	(2,649,261)
Total deferred benefit	3,791,063	(730,238)	(10,376,272)
Change in valuation allowance	-	-	8,839,791
Income tax (provision) benefit	<u>\$ 3,791,063</u>	<u>\$ (730,238)</u>	<u>\$ (3,285,969)</u>

The reconciliation of income tax expense computed at the U.S. federal statutory rate of 21% to the income tax provision is as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Computed tax expense	21%	21%	21%
State taxes, net of Federal income tax benefit	5%	6%	7%
Change in valuation allowance	0%	0%	(24)%
Employee stock awards	(7)%	(40)%	4%
Other	(1)%	0%	0%
Stock and Warrants on Note Conversion	0%	(5)%	1%
Total provision for income taxes	<u>18%</u>	<u>(18)%</u>	<u>9%</u>

The Company's effective tax rates was 18% for the year ended March 31, 2024. During the year ended March 31, 2024, the effective tax rate differed from the U.S. federal statutory rate primarily due to Employee stock awards.

Significant components of the Company's deferred tax liabilities and assets are as follows:

	<u>2024</u>	<u>2023</u>
Deferred tax assets		
Net operating loss carryforward	\$ 5,397,983	\$ 871,331
Loss on purchase	826,311	826,311
Other	314,257	-
Total deferred tax assets	<u>\$ 6,538,461</u>	<u>\$ 1,697,642</u>
Deferred tax liabilities		
Depreciation expense	\$ (3,007,227)	\$ (2,906,214)
Other	(2,044,236)	(1,101,020)
Total deferred tax liabilities	<u>\$ (5,051,463)</u>	<u>\$ (4,007,234)</u>
Net deferred tax assets/(liabilities)	<u>\$ 1,486,998</u>	<u>\$ (2,309,592)</u>
Valuation allowance	-	-
Net deferred tax assets/(liabilities)	<u>\$ 1,486,998</u>	<u>\$ (2,309,592)</u>

The Company accounts for uncertain tax positions in accordance with ASC No. 740-10-25. ASC No. 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC No. 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amount recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. ASC No. 740-10-25 also requires management to evaluate tax positions taken by the Company and recognize a liability if the Company has taken uncertain tax positions that more likely than not would not be sustained upon examination by applicable taxing authorities. The Company has evaluated tax positions taken by the Company and has concluded that as of March 31, 2024 and 2023, there are no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability that would require disclosure in the financial statements.

The Company has never had an Internal Revenue Service audit; therefore, the tax periods ended December 31, 2016, December 31, 2017 and March 31, 2018, 2019, 2020, 2021, 2022, 2023, and 2024 are subject to audit.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 – GOODWILL AND INTANGIBLE ASSETS

During our previous fiscal year ended March 31, 2022, we recorded \$90,870,094 of Goodwill generated from our Merger with Gemini. The balance of Goodwill at March 31, 2024 and 2023 was \$90,870,094. We did not have any Goodwill prior to the year ended March 31, 2022.

Total amortization expense of our intangible assets was \$13,062,874, \$13,067,041, and \$13,072,967 for the years ended March 31, 2024, 2023, and 2022, respectively.

Intangible assets consisted of the following:

	Life	March 31, 2024		
		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
		<u>250,000</u>	<u>7,074,005</u>	<u>151,763,617</u>
Accumulated amortization – Licensing Agreements		(250,000)	-	-
Accumulated amortization – Patents		-	(2,534,715)	-
Accumulated amortization – Intangible Assets		-	-	(40,714,550)
		<u>\$ -</u>	<u>\$ 4,539,290</u>	<u>\$ 111,049,067</u>

	Life	March 31, 2023		
		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
		<u>250,000</u>	<u>7,074,005</u>	<u>151,763,617</u>
Accumulated amortization – Licensing Agreements		(250,000)	-	-
Accumulated amortization – Patents		-	(2,041,251)	-
Accumulated amortization – Intangible Assets		-	-	(28,036,807)
		<u>\$ -</u>	<u>\$ 5,032,754</u>	<u>\$ 123,726,810</u>

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

Years Ended March 31,	Estimates for Fiscal Year
2025	\$ 12,650,642
2026	12,614,775

2027	12,549,188
2028	12,543,226
2029	12,507,792
Thereafter	52,722,734
	<u>\$ 115,588,357</u>

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – SEGMENTS

On April 30, 2021, the Company entered into an agreement and plan of merger with Gemini, which, along with its subsidiaries, engages primarily in the operation of an online marketplace dedicated to firearms, hunting, shooting and related products. As a result, at March 31, 2024, our Chief Executive Officer reviews financial performance based on two operating segments as follows:

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

In the current period, we began the reporting of the separate allocation of certain corporate general and administrative expenses including non-cash stock compensation expense, as such we have updated the prior period disclosure herein. The following tables set forth certain financial information utilized by management to evaluate our operating segments for the annual periods presented:

	For the Year Ended March 31, 2024			
	Ammunition	Marketplace	Corporate and other expenses	Total
Net Revenues	\$ 91,112,496	\$ 53,942,076	\$ -	\$ 145,054,572
Cost of Revenues	94,771,262	7,660,541	-	102,431,803
General and administrative expense	8,967,456	9,885,131	28,804,588	47,657,175
Depreciation and amortization	508,485	13,034,306	-	13,542,791
Income/(Loss) from Operations	<u>\$ (13,134,707)</u>	<u>\$ 23,362,098</u>	<u>\$ (28,804,588)</u>	<u>\$ (18,577,197)</u>

	For the Year Ended March 31, 2023			
	Ammunition	Marketplace	Corporate and other expenses	Total
Net Revenues	\$ 128,290,128	\$ 63,149,673	\$ -	\$ 191,439,801
Cost of Revenues	126,914,265	9,116,939	-	136,031,204
General and administrative expense	10,378,456	9,707,425	25,302,873	45,388,754
Depreciation and amortization	578,326	12,700,436	-	13,278,762
Income/(Loss) from Operations	<u>\$ (9,580,919)</u>	<u>\$ 31,624,873</u>	<u>\$ (25,302,873)</u>	<u>\$ (3,258,919)</u>

	For the Year Ended March 31, 2022			
	Ammunition	Marketplace	Corporate and other expenses	Total
Net Revenues	\$ 175,660,650	\$ 64,608,516	\$ -	\$ 240,269,166
Cost of Revenues	142,773,306	8,732,351	-	151,505,657
General and administrative expense	11,932,721	8,434,308	17,544,970	37,911,999
Depreciation and amortization	1,579,778	12,122,370	-	13,702,148
Income/(Loss) from Operations	<u>\$ 19,374,845</u>	<u>\$ 35,319,487</u>	<u>\$ (17,544,970)</u>	<u>\$ 37,149,362</u>

Total assets by segment were as follows:

	For the Year Ended		
	March 31, 2024	March 31, 2023	March 31, 2022
Ammunition	\$ 163,864,522	\$ 154,044,607	\$ 160,305,107
Marketplace	236,037,694	258,290,780	253,873,206
	<u>\$ 399,902,216</u>	<u>\$ 412,335,387</u>	<u>\$ 414,178,313</u>

Total capital expenditures by segment were as follows:

	For the Year Ended		
	March 31, 2024	March 31, 2023	March 31, 2022
Ammunition	\$ 5,519,135	\$ 10,819,177	\$ 17,728,023
Marketplace	2,505,630	1,722,148	1,490,959

\$ 8,024,765

\$ 12,541,325

\$ 19,218,982

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Ammo, Inc. on Forms S-8 (No. 333-251677 and No. 333-27078) and Form S-3 (No. 333-252786) of our reports dated June 13, 2024, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting appearing in the Annual Report on Form 10-K of Ammo, Inc. for the year ended March 31, 2024.

/s/ PANNELL KERR FORSTER OF TEXAS, P.C.

Houston, Texas
June 13, 2024

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) and 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jared R. Smith, certify that:

1. I have reviewed this Annual Report on Form 10-K of AMMO, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 13, 2024

By: /s/ Jared R. Smith

Name: Jared R. Smith

Title: Chief Executive Officer (Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) and 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert D. Wiley, certify that:

1. I have reviewed this Annual Report on Form 10-K of AMMO, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 13, 2024

By: /s/ Robert D. Wiley

Name: Robert D. Wiley

Title: Chief Financial Officer (Principal Financial Officer)

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

In connection with Annual Report of AMMO, Inc. (the “ Company”) on Form 10-K for the period ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Jared R. Smith, Chief Executive Officer (Principal Executive Officer) of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 13, 2024

By: /s/ Jared R. Smith

Name: Jared R. Smith

Title: Chief Executive Officer (Principal Executive Officer)

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

In connection with Annual Report of AMMO, Inc. (the “ Company”) on Form 10-K for the period ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Robert D. Wiley, Chief Financial Officer (Principal Financial Officer) of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 13, 2024

By: /s/ Robert D. Wiley

Name: Robert D. Wiley

Title: Chief Financial Officer (Principal Financial Officer)
