



ANNUAL
REPORT
2022



OUR MISSION

Our creed, Together, We Save Lives[®], is inherent in the life-saving products we deliver. Through integration, innovation, and the constant pursuit of perfection, we intend to empower, equip and protect first responders and government agency personnel with the best protective products on the planet.

DEAR FELLOW SHAREHOLDERS,

I take pleasure in writing this letter to you as the Chairman and CEO of Cadre Holdings, Inc. following the completion of our first full year as a public company. Cadre Holdings comprises a number of businesses, many of which have been around for many decades. Our mission statement is simple: "Together, We Save Lives." We design, manufacture and distribute life-saving equipment for first responders that help keep professional users safe in the line of duty.

I am immensely proud of what our team has accomplished. After completing our IPO in November 2021, we completed two acquisitions, completed a follow-on equity offering and delivered record financial results. These achievements are notable in and of themselves, and especially so when put into the context of current macroeconomic and business-specific conditions.

2022 was a strange year as measured by any number of economic indicators, including 40-year high inflation, wage and price pressures, some of the fastest increases in interest rates in Federal Reserve history, and unemployment and job growth data that remained solid. This economic uncertainty was augmented and complicated by geopolitical events such as the war in Ukraine and rising tensions in Asia. In our space, crime levels remain stubbornly high and recruiting for police officers continues to be difficult, but there is overwhelming bipartisan consensus that public safety is a baseline requirement for healthy and economically vibrant communities.

All of this points to two things we have spoken about before. First is the resiliency of our business across economic, political, geopolitical and other cycles. Second is the implementation in 2022 of the Cadre Operating Model to drive continuous improvement and operational excellence in various trading environments.

2022 RECORD FINANCIAL RESULTS

Considering the challenging environment in 2022, we are especially pleased with our financial performance for the year. Our revenue grew by 7.1% on demand across a number of product categories plus the impact of acquisitions. Our reported gross margin decreased by approximately 150 basis points, driven primarily by a 110-basis point non-cash impact of the amortization of inventory step-ups from acquisitions. The remainder of the shortfall to last year was driven by unfavorable product and channel mix, partially offset by pricing in excess of material inflation. Having said that, we expect our margins to improve in 2023 as price increases hold and we experience the benefit of our ongoing continuous improvement initiatives. Adjusted EBITDA increased by 6.1% to \$75.7 million and we experienced a 15.8% increase in our cash provided by operating activities.*

FOLLOW-ON EQUITY OFFERING AND CAPITAL STRUCTURE

We completed the acquisitions of Radar and Cyalume using borrowings under our revolving credit facility led by PNC Bank and co-led by Bank of America. In spite of volatile equity markets, we were able to complete a follow-on equity offering in June 2022 that brought in approximately \$53.4 million of net proceeds to Cadre and also monetized a significant portion of a position held by a large shareholder that would eventually need to be sold based on that shareholder's structure, removing overhang on our common stock. The net proceeds to the Company were used to pay our revolving credit line down to zero, with the remainder going to cash on the balance sheet. We continued to build cash through the year and closed 2022 with net debt of approximately \$104.4 million, representing a net debt leverage multiple of 1.38x.



Warren B. Kanders

*Chief Executive Officer &
Chairman of the Board*

7.1%

Revenue growth

15.8%

Increase in Cash Flow
from Operating Activities

\$75.7m

Adjusted EBITDA*

1.38x

Net Debt / Adjusted
EBITDA*

*Adjusted EBITDA is a non-GAAP financial measure. Reconciliation of this non-GAAP measure to Net Income, the most directly comparable GAAP measure, is included in the accompanying Annual Report on Form 10-K for the year ended December 31, 2022.

CADRE OPERATING MODEL

Our business strategy is to attain and sustain exceptional results. The CADRE Operating Model is a behavior-based, leadership-centric operating “way” that enables us to create greater value for our customers and stakeholders. It guides how we work, innovate, solve problems, improve and engage with each other, customers and communities.

Drawn from decades of experience at management’s prior companies, this model guides our approach to leadership capabilities and management processes. That, in turn, supports the Cadre Excellence Maturity Model, a leadership operating model supported by lean tools, variability reduction tools and Kaizen methodology. One critical output is leadership in product growth and innovation that allows us to capitalize on our position as a leading global provider of safety and survivability equipment. I would encourage you to read more about this on our investor relationship website.



We also continued to pay our regular quarterly dividends at \$0.08 per share per quarter, or \$0.32 per share annualized.

ACCRETIVE M&A

We continued our pursuit of accretive M&A opportunities in 2022. Early in the year, as discussed in our last annual report, we completed the acquisition of Radar Leather in Italy, a business that had provided duty gear primarily to European markets. We have already been successful in capitalizing on additional revenue opportunities by selling Radar-designed products into additional geographies and leveraging Radar’s relationships in various countries to sell Safariland’s non-duty gear products.

Additionally, in May 2022, Cadre completed the acquisition of Cyalume Technologies, a leading manufacturer of proprietary chemical illumination solutions for military, first responder and other commercial applications. Cyalume is a world leader in chemical light solutions, providing light sticks, chemi-luminescent ammunition and infra-red devices to U.S. and NATO military forces, among other commercial and law enforcement markets. As the leading supplier of chemical light products to the U.S. Department of Defense, NATO and Allied Nations, Cyalume is entrenched in combat and recurring military training applications and offers unique technological and engineering capabilities. This transaction was consistent with acquisition criteria we have articulated, and Cyalume’s performance since the deal closed has exceeded our expectations.

Finally, in 2023, we hope to identify and close one or two transactions by the end of the year. Our pipeline has been improving and we believe the persistence of this economic environment will create opportunities to identify targets that meet our criteria and can benefit from our approach.

LOOKING FORWARD

Looking forward, as we have discussed in last year’s letter and in our earning calls, we remain confident in the prospects for our business. Funds provided by federal legislation in 2021 continue to filter down to police departments and agencies, public safety remains a top priority for communities domestically and internationally, and our product development pipeline is strong.

All of this ties back to why I believe Cadre is special and our mission is important. Our mission statement – Together, We Save Lives – underscores what our products do for people. We recently experienced Save number 2,159 in our Saves Club, another professional saved while putting their life on the line to protect all of us. This is what motivates Cadre to develop and manufacture the highest quality equipment available, and we look forward to delivering on this mission in the years to come.

As always, we thank our shareholders and partners for their interest and support.

Very truly yours,

Warren B. Kanders

Chief Executive Officer & Chairman of the Board

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2022

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: 001-40698

CADRE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Other Jurisdiction of incorporation or Organization)

13386 International Parkway, Jacksonville, FL

(Address of principal executive offices)

38-3873146

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

32218

(Zip code)

Registrant's telephone number, including area code: (904) 741-5400

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, \$0.0001 Par Value per Share	CDRE	New York Stock Exchange

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.0405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

Indicate by check mark whether the registrant 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 Exchange Act). Yes No

The aggregate market value of the shares of Cadre Holdings, Inc. common stock held by non-affiliates of the registrant as of June 30, 2022 was \$366,489,414 based on the closing price of \$19.67 as reported by the New York Stock Exchange.

As of March 10, 2023, there were 37,332,271 shares of common stock, par value \$0.0001, outstanding

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for its 2023 Annual Meeting of Stockholder, or the Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, are incorporated by reference in Part III. Except with respect to information specifically incorporated by reference in this Annual Report, the Proxy Statement shall not be deemed to be filed as part hereof.

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CAUTIONARY STATEMENT

This Annual Report on Form 10-K (this “Report”) contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Except where the context otherwise requires or where otherwise indicated, the terms the “Company”, “Cadre”, “we,” “us,” and “our,” refer to the consolidated business of Cadre Holdings, Inc. and its consolidated subsidiaries. All statements in this Report, other than statements of historical fact, are forward-looking statements. These forward-looking statements are based on management’s current expectations, assumptions, hopes, beliefs, intentions, and strategies regarding future events and are based on currently available information as to the outcome and timing of future events. In some cases, you can identify forward-looking statements because they contain words such as “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “should,” “would,” “could,” “plan,” “predict,” “potential,” “seem,” “seek,” “future,” “outlook,” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. The Company cautions you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond the control of the Company, incident to its business.

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. These forward-looking statements are based on information available as of the date of this Report (or, in the case of forward-looking statements incorporated herein by reference, if any, as of the date of the applicable filed document), and any accompanying supplement, and current expectations, forecasts and assumptions, and involve a number of risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing the Company’s views as of any subsequent date, and the Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Report. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. Our forward-looking statements do not reflect the potential impact of any future acquisitions, partnerships, mergers, dispositions, joint ventures, or investments we may make.

As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Some factors that could cause actual results to differ include:

- the availability of capital to satisfy our working capital requirements;*
- anticipated trends and challenges in our business and the markets in which we operate;*
- our ability to anticipate market needs or develop new or enhanced products to meet those needs;*
- our expectations regarding market acceptance of our products;*
- the success of competing products by others that are or become available in the market in which we sell our products;*
- the impact of adverse publicity about the Company and/or its brands, including without limitation, through social media or in connection with brand damaging events and/or public perception;*
- changes in political, economic or regulatory conditions generally and in the markets in which we operate;*
- the impact of political unrest, natural disasters or other crises, terrorist acts, acts of war and/or military operations;*
- our ability to maintain or broaden our business relationships and develop new relationships with strategic alliances, suppliers, customers, distributors or otherwise;*
- our ability to retain and attract senior management and other key employees;*

- *our ability to quickly and effectively respond to new technological developments;*
- *the effect of an outbreak of disease or similar public health threat, such as the COVID-19 pandemic, on the Company's business;*
- *logistical challenges related to supply chain disruptions and delays;*
- *the impact of inflationary pressures and our ability to mitigate such impacts with pricing and productivity;*
- *the possibility that the Company may be adversely affected by other economic, business, and/or competitive factors;*
- *the ability of our information technology systems or information security systems to operate effectively, including as a result of security breaches, viruses, hackers, malware, natural disasters, vendor business interruptions or other causes;*
- *our ability to properly maintain, protect, repair or upgrade our information technology systems or information security systems, or problems with our transitioning to upgraded or replacement systems;*
- *our ability to protect our trade secrets or other proprietary rights and operate without infringing upon the proprietary rights of others and prevent others from infringing on the proprietary rights of the Company;*
- *our ability to maintain a quarterly dividend;*
- *the increased expenses associated with being a public company and the related increased disclosure and reporting obligations;*
- *any material differences in the actual financial results of the Company's past and future acquisitions as compared with the Company's expectations; and*
- *other risks and uncertainties set forth in the section entitled "Risk Factors" of this Report, which is incorporated herein by reference.*

Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in this Report, specifically the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Other risks and uncertainties are and will be disclosed in our prior and future filings with the Securities and Exchange Commission ("SEC"). The following information should be read in conjunction with the Consolidated Financial Statements included in this Report.

Neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements.

PART I

Item 1. Business

BUSINESS

Business Overview

For over 55 years, we have been a global leader in the manufacturing and distribution of safety and survivability equipment for first responders. Our equipment provides critical protection which allows its users to safely perform their duties and protect those around them in hazardous or life-threatening situations. Through our dedication to superior quality, we establish a direct covenant with end users that our products will perform and keep them safe when they are most needed. We sell a wide range of products including body armor, explosive ordnance disposal equipment and duty gear through both direct and indirect channels. In addition, through our owned distribution, we serve as a one-stop shop for first responders providing equipment we manufacture as well as third-party products including uniforms, optics, boots, firearms and ammunition. The majority of our diversified product offering is governed by rigorous safety standards and regulations. Demand for our products is driven by technological advancement as well as recurring modernization and replacement cycles for the equipment to maintain its efficiency, effective performance and regulatory compliance.

As discussed below, we believe we have established leading market positions in our major product categories through high-quality standards, innovation and a direct connection to the end users, including being a leading provider of explosive ordnance disposal technician equipment globally as well as a leading provider of safety holsters and a top provider of soft body armor for first responders in the U.S. We service the ever-changing needs of our end users by investing in research and development for new product innovation and technical advancements that continually raise the standards for safety and survivability equipment in the first responder market. Our target end user base includes domestic and international first responders such as state and local law enforcement, fire and rescue, explosive ordnance disposal technicians, emergency medical technicians (“EMT”), fishing and wildlife enforcement and departments of corrections, as well as federal agencies including the U.S. Department of State (“DoS”), U.S. Department of Defense (“DoD”), U.S. Department of Interior (“DoI”), U.S. Department of Justice (“DoJ”), U.S. Department of Homeland Security (“DHS”), U.S. Department of Corrections (“DoC”) and numerous foreign government agencies. We have a large and diverse customer base, with no individual customer representing more than 10% of our total revenue.

We are committed to honoring those who put their lives in danger through the SAVES CLUB®, which pays homage to first responders who experience a life-threatening incident in the line of work in which our armor or duty gear contribute to saving their lives. The SAVES CLUB® currently has over 2,000 members and counting. With the help of our suppliers, distributors and first responder end users, we strive to fulfill the Company creed: Together, We Save Lives.

Industry Overview

The market for safety and survivability equipment serving first responders focuses on providing a diverse set of protective and mission enhancing products and solutions to our target end users. The market is driven by multiple factors including customer refresh cycles, growing number of personnel employed by first responder organizations, equipment replacement and modernization trends, greater emphasis on public and first responders’ safety and demographic shifts.

Body armor, explosive ordnance disposal equipment and duty gear comprise the core product areas in the safety and survivability equipment market and law enforcement personnel growth is a significant driver for our business. The U.S. Bureau of Labor Statistics projects the number of law enforcement personnel in the U.S. to increase at a faster rate than broader labor market growth over the 10-year period from 2019 to 2029, or 5%, from 813,500 in 2019 to 854,200 in 2029. Demand for first responder safety and survivability equipment is also fueled by increasing law enforcement budgets.

In addition to the macro industry trends, each of these product segments experience unique drivers in and of themselves. Increasing mandatory body armor use and refresh policies, evolving technical standards and increases in tactical or special weapons and tactics (“SWAT”) law enforcement personnel act as tailwinds to the body armor market. Meanwhile, the explosive ordnance disposal equipment market is driven by the continued emergence of new global threats while duty gear is driven mainly by product use and replacement cycles.

Our management estimates the annual addressable market for soft body armor (including tactical soft armor) to be approximately \$870 million. We also estimate explosive ordnance disposal equipment to have an addressable market of approximately \$245 million over the seven-to-ten year life cycle of the products' installed base. Finally, the annual addressable market for holsters for the global law enforcement and military and consumer markets is estimated to be approximately \$380 million.

The international market is also poised for growth as foreign governments face increasingly complex safety challenges and seek to replace legacy equipment. Additionally, we foresee the demand for safety and survivability equipment from overseas markets to increase due to heightened awareness of the importance and effectiveness of such products and as countries are exposed to new threats. Our management estimates our addressable number of total law enforcement personnel outside the U.S. to be approximately 9.7 million, representing a substantial market opportunity.

Our management team believes that the safety and survivability equipment industry for first responders represents a stable and growing market with long-term opportunities. Given our strong market standing, direct connection to the end users, extensive distribution network, long history of innovations and high-quality standards, we believe we are well positioned to capitalize on the positive market dynamics.

Competitive Strengths

Leading, independent global provider of safety and survivability equipment for first responders. Our history as a leading provider of high-quality safety and survivability equipment dates back to 1964. Our differentiated value proposition is built on superior quality combined with an unwavering focus on critical safety standards, making us the trusted brand name for first responders. Our extensive product breadth allows us to serve as a one-stop shop for our end users and their safety and survivability equipment needs.

Strong market positions. Based on data we collect related to end users and publicly available information on awarded contracts and purchases, we believe we have leading market positions across multiple product categories through superior quality and performance differentiating us from our competition. By way of reference, we sell concealable tactical, hard armor, or duty retention holsters to the majority of the top 50 police departments in the U.S. by size. Furthermore, we are a party to multi-year contracts for the largest bomb suit teams in the world including the DoD. Our products continually exceed stringent industry safety standards and are recognized for advancements in performance through innovation and technological enhancement.

Mission-critical products with recurring demand characteristics. Our products provide critical protection to their end users as well as those around them, with limited or no room for error. As a result, stringent safety standards and customary warranty provisions create refresh cycles on over 80% of the equipment we supply to ensure efficient and effective performance at all times. Demand associated with these refresh cycles drives a highly predictable recurring revenue stream. The majority of our remaining revenue is associated consumable products driving recurring sales based on replenishment needs.

Attractive macro-economic and secular tailwinds driving demand and visibility for our products. The vast majority of our end markets are acyclical in nature, as their demand is driven primarily by the first responder budgets, and relatively unaffected by economic cycles. Our business has benefitted from key shifts serving as tailwinds to our growth strategy including the increasing focus on safety, replacement and modernization trends as well as demographic shifts and urbanization.

Compelling organic and inorganic growth roadmap. Leveraging our differentiated product development process and technical knowhow, leading domestic market position and first mover advantage with our suppliers, we plan to drive profitable organic revenue growth via new product development and geographic expansion. In particular, international expansion is an especially important initiative in our organic growth roadmap due to the significant market share opportunity and increasing investments in safety and survivability equipment in various key geographic markets. We expect to supplement our organic growth through a targeted M&A program spanning our existing core products and markets as well as attractive adjacencies.

Attractive financial profile with strong EBITDA margins and free-cash-flow generation. We generate strong profitability through diligent portfolio management of customers and contracts and continued focus on cost structure to drive operating leverage. Our strong profitability combined with minimal capital expenditure requirements result in high free-cash-flow generation, which is a key driver for our internal research and development initiatives and targeted M&A program. Our Adjusted EBITDA Conversion Rate ((Adjusted EBITDA less capital expenditures) / Adjusted EBITDA) has consistently been greater than 90%.

Tenured management with significant public company platforms. Our management team is comprised of executive officers with extensive experience at public company platforms including Armor Holdings Inc., Danaher Corporation, General Electric Company and IDEX Corporation. Together they bring an established track record of strong performance operating and growing public companies both organically and via acquisitions. This experience has created a differentiated approach to our operating model through their expertise in building a culture of operational and cultural excellence, complexity reduction, and innovation.

Long-term customer relationships across diverse end markets and geographies. We maintain long-term relationships with over 23,000 first responders and federal agencies both domestically and internationally, with top customer relationships averaging an excess of 15 years. Our global presence spans over 100 countries across North America, Europe and other regions.

Products

We design and manufacture a diversified product portfolio of critical safety and survivability equipment to protect first responders. We maintain clear market-leadership positions in certain core product categories including body armor, explosive ordnance disposal equipment and duty gear. Over 80% of our product line is tied to customary or mandated refresh cycles of between five and ten years, which drives a highly predictable recurring revenue stream. The majority of the remaining revenue is associated consumable products. Our overall strategy is to drive growth by leveraging our leading market shares and competitively differentiated offerings in each of our core product categories, including:

Body Armor. We offer a full range of field-proven advanced armor solutions. Our products incorporate cutting-edge technology, innovative materials and processes in order to provide the best protection, reduce weight and optimize ergonomics for the end user. The majority of our armor products, which comply with NIJ or other applicable standards, are made-to-measure. We recently launched an industry-first partnership to provide law enforcement officers and first responders with the ability to determine size through the use of mobile phone scanning and artificial intelligence technologies.

Our principal body armor product offerings include concealable, corrections and tactical armor, which provide varying levels of protection against ballistic or sharp instrument threats. Our body armor products are sold under the well-known Safariland® and Protech® Tactical brand names. We also sell products in partnership with industry leading developer Hardwire LLC.

Our body armor panels manufactured in the United States are designed to meet applicable ballistic performance standards established by the NIJ. We also manufacture body armor in Canada, England and Lithuania that is certified to meet applicable international armor standards. We also distribute a variety of third-party items, including helmets, and face shields for protection from blunt trauma and explosive shrapnel.



Explosive Ordnance Disposal. We are the global leader of a highly engineered portfolio of critical operator survival suits, remotely operated vehicles, specialty tools, blast sensors, accessories and vehicle blast attenuation seats for bomb safety technicians. As the most trusted brand in the market, Med-Eng is the go-to source for explosive ordnance solutions in the developed world. Our products provide end users with the latest protective technologies integrated with electronic components and communications equipment.

Med-Eng has a fielded installed base of bomb suits in over 100 countries, yielding predictable, recurring replacement cycles. Our continuous investment in R&D supported by our existing IP portfolio, drives next-generation technologies designed to meet the ever-evolving threats for operators in the field. Select customers include the U.S. Army, U.S. Navy, U.S. Air Force, U.S. Marines, FBI, ATF and all the armed forces of NATO countries.



Duty Gear. We are the industry leader in holster innovation and safety engineering and our products incorporate industry standard safety locking mechanisms on which a majority of first responders are trained. The end user base for our holster products includes state and local law enforcement, federal agencies including the DoS, DoD, DoI, DHS, and DoC, foreign police and military agencies, and the commercial concealed carry market. We also offer a complementary line of officer duty gear including belts and accessories.

In connection with the mission critical nature of duty gear products, we dedicate significant product development resources to ensure efficient and effective performance of our products. We manufacture and sell duty gear and commercial offerings under the widely recognized Safariland®, Radar® and Bianchi® brands.



Other Protective and Law Enforcement Equipment. Supplementary to our core product offerings, we design, manufacture, assemble, and market a suite of equipment to round out our product portfolio. Key products include communications gear, forensic and investigation products, firearms cleaning solutions, and crowd control products. These products are marketed under several well-known niche brands. In addition, through our owned distribution, we serve as a one-stop shop for first responders providing equipment we manufacture as well as third-party products including uniforms, optics, boots, firearms and ammunition.

Growth Strategy

Our growth plan consists of a multi-pronged approach that includes driving profitable core revenue growth through new product introductions and international market expansion combined with targeted acquisitions, enhanced through our operating model.

Profitable Core Revenue Growth. We believe that our leading market positions across a range of core categories will continue to yield significant growth opportunities. Our management team is focused on delivering new product launches, increasing customer wallet share, executing on key new contract opportunities and expanding our high-margin e-commerce and direct-to-consumer capabilities to continue to drive revenue growth. Examples of recent product innovation include the development of a 3D body sizing solution for soft armor, introduction of our next generation holsters, a new tactical armor solution, and working with key suppliers on the use of emerging materials for utilization in new armor products. We are also seeking to expand our leadership in high-growth technologies through the development of our blast sensor equipment for soldier protection. We believe this opportunity could represent a total potential addressable market opportunity of up to approximately \$500 million based on the total size of the DoD branches ultimately participating in the program. The requirement for blast sensors and the potential market for all branches of the U.S. military is supported by the Blast Pressure Exposure Study Improvement Act which was signed into law as part of the National Defense Authorization Act for Fiscal Year 2020.

International Market Expansion. We are also committed to increasing our market share internationally. Given our leading domestic market position and our products' high-quality standards and performance, we believe we are well positioned to take advantage of the growth in international demand for safety and survivability equipment for first responders. We intend to penetrate certain international markets through leveraging existing relationships, building local market teams and expansion into relevant market adjacencies.

Targeted M&A Program. To supplement organic growth and internal research and development, our management team has historically undertaken a targeted M&A program, completing 14 transactions to date. These strategic acquisitions have allowed us to

expand our product and technology offerings, enter new markets and expand geographically to achieve attractive returns in our invested capital period.

We maintain a robust pipeline of opportunistic M&A opportunities, spanning our existing core products and markets as well as attractive adjacencies within the safety and survivability landscape. We plan to utilize our relatively high free-cash-flow generation and historical success in acquisitions to drive favorable acquisition structures and efficient integration. Our operating model, passion around connecting with customers and expansive channel help maximize the value created from our acquisitions.

Continuous Margin Improvement Initiatives. Our management team has shown a strong track record of achieving cost structure optimization to drive operating leverage, as evidenced by past years' margin improvements. Our operating model starts with complexity reduction then uses lean tools and methods to continuously improve operational and commercial processes. Strategic initiatives completed over the past few years include among others, rationalizing the Company's manufacturing footprint, divesting non-core activities, enhancing our supply chain and optimizing customer relationships and key contracts. Together these activities have helped enhance the Company's manufacturing and sales operations, ultimately driving profitability growth.

Customers and Selling Channels

We sell our products through distributors and work directly with agencies to effectively reach end users. We classify our first responder customers into four categories: U.S. State and Local Agencies, International, U.S. Federal Agencies, and Commercial (which includes our direct-to-consumer sites).

U.S. State and Local Agencies. We have built relationships with the majority of domestic law enforcement agencies in the country, selling at least one product category to each of the top 50 major departments. Other end users in this category include fire and rescue, explosive ordnance disposal technicians, EMT, fishing and wildlife enforcement and departments of corrections. We sell our products through a network of longstanding third-party distributors as well as an owned distribution platform, both of which interact directly with agencies and end users.

International. Over the past three years, we have sold products to more than 100 countries globally. We service foreign defense ministries, foreign national law enforcement agencies and other foreign agencies through our distribution partners as well as through agency agreements with representatives to help service broad regions.

U.S. Federal Agencies. We sell to a variety of federal agencies including the DoS, DoD, DoI, DoJ and DHS Inc. Furthermore, we have long-standing contracts with key departments within the U.S. Army, U.S. Air Force, U.S. Navy and U.S. Marine Corps.

Commercial. Our Commercial channel consists primarily of sales through largely recognized e-commerce companies and retailers as well as through our own e-commerce sites.

We service each of our channels through in-field technical salespeople and an owned distribution network. Our traditional distribution network consists of longstanding distribution partners and agents for first responders and federal agencies, retailers and e-commerce platforms and our own website where we sell directly to the end user. We pair our in-house expertise with outside partners in order to provide our customers with the best service possible while maintaining a real-time understanding of end user needs. In total, we have 81 salespeople domestically and 21 internationally. We believe that by combining our third party network with our in-house salesforce and our extensive owned distribution network, we create continuous customer interaction and best-in-class service and training, providing us with a distinct advantage over our peers.

Our brand name recognition and reputation among our customers, diversified product line and extensive distribution network are central to our marketing strategy. We leverage these advantages along with involvement and support of several law enforcement associations to market our products.

Manufacturing and Raw Materials

We operate a global manufacturing footprint with 16 sites across North America and Europe. Each site has capacity to scale up without further material investment in machinery and equipment. Additionally, we manage a diverse global supplier base of leading

textile, fabric and raw material providers. We have multiple sources for each input in order to limit our dependency on any single vendor. No supplier makes up more than 10% of total purchases.

We are reliant on certain suppliers that provide us with the raw materials and components that we utilize in manufacturing our ballistic resistant garments. Although in some cases substitutable alternative materials and components may be obtained from other commercially available sources, any change in the materials and components that we utilize in manufacturing our ballistic resistant garments may require additional research and development, recertification as well as customer acceptance.

Competition

We compete in the large public safety and outdoor and recreation markets amongst other ancillary addressable markets. Competition in the public safety markets depends on the specific product in question but is generally based on a number of factors including product quality, safety performance, fit, price, and brand recognition. We believe that we have been able to compete successfully driven by the combination of our brand and product dependability, superior engineering and manufacturing capabilities, industry-leading product innovations, as well as on the breadth of our offering to customers.

Our primary competitors include, but are not limited to, Point Blank Enterprises, Inc., Avon Protection Systems, Inc., Central Lake Armor Express, Inc. (d/b/a Armor Express), as well as the Blackhawk division of Vista Outdoor Inc. None of our competitors across individual product categories compete in each of our product verticals, making us the only one-stop provider of critical safety and survivability equipment solutions in the market.

Certain of our products cross over into the broader outdoor and recreation market, which is highly fragmented and highly competitive. While we believe that acceptance in this market is principally driven by the ability to bring new and innovative products to market, price point is critical.

Human Capital

We have a total of 2,274 employees. Of these employees, 1,729 were engaged in manufacturing, 221 in sales, marketing, product management and customer support, 152 in corporate functions (IT, Finance, HR, Legal and Compliance, etc.), 127 in R&D, technical engineering, manufacturing engineering and project management, 33 retail store associates and 12 in various executive and administrative functions. 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 objectives center around identifying, recruiting, retaining, incentivizing and integrating our existing and new employees.

Research and Development

Our significant IP portfolio combined with best-in-class product development and advanced materials processing separates us from our competitors. We have dedicated research and development centers at our manufacturing sites that specialize in product categories, including ballistics developments and state-of-the-art testing laboratory in Ontario, California, blast impact and technology development for explosive ordnances in Ottawa, Canada, and holster development and design in Jacksonville, FL, each of which focus on quality and product performance in order to generate critical real-time feedback. We aim to achieve efficient integration of quality materials and latest technologies to develop our products, which will allow us to leverage our first mover advantage from our suppliers.

Intellectual Property and Trademarks

We own significant intellectual property, including patents, trademarks, manufacturing processes and trade secrets related to our products, processes and business. Although our intellectual property plays an important role in maintaining our competitive position, we do not consider any single patent, trademark, manufacturing process or trade secret to be of material importance to any segment or to the business as a whole.

We own a total of 447 patents and pending patent applications worldwide, of which 402 are patents granted and 45 are pending patent applications, with expiry dates ranging from 2023 to 2045 in 33 jurisdictions. Of those 447 patents and pending patent applications, 329 are for utility patents and 118 are for design patents. We own patents and pending patent applications in the United

States, Australia, Austria, Belgium, Brazil, Canada, the People’s Republic of China, Czech Republic, Denmark, France, Germany, Hong Kong, India, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, New Zealand, Netherlands, Norway, Poland, Portugal, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, and the United Kingdom, as well as in the European Union.

The loss of patent protection for patents expiring in 2023 is not expected to have a material effect on our business.

Our material registered trademarks include SAFARILAND® and MED-ENG®.

The following table describes the material patents and patent applications owned or licensed by us, segregated by product category, including the range of expiry dates:

Product Category	Ownership	Number of Patents Granted	Range of Expiration Dates for Granted Patents	Number of Pending Patent Applications	Range of Expiration Dates (if Pending Patent Granted)
Body Armor	Safariland, LLC	38	2023 – 2041	3	2042
Body Armor	Pacific Safety Products, Inc.	1	2023	—	—
Duty Gear	Safariland, LLC	88	2023 – 2041	15	2036 – 2042
Duty Gear	Radar Leather Division S.r.l.	60	2023 – 2039	3	2037 – 2039
EOD	Med-Eng, LLC	93	2023 – 2045	2	2036 – 2040
Crowd Control	Defense Technology, LLC	32	2026 – 2038	4	2035 – 2042
Crowd Control	Safariland, LLC	1	2032	—	—
Crowd Control	Radar Leather Division S.r.l.	4	2029 – 2031	—	—
Other – Diversified	Safariland, LLC	32	2024 – 2041	3	2040 – 2041
Other – Diversified	Cyalume Technologies	53	2023 – 2039	15	2038 – 2042

Government Regulation

We are subject to federal licensing requirements with respect to the sale of some of our products in foreign countries. In addition, we are obligated to comply with a variety of federal, state and local regulations, both domestically and abroad, governing certain aspects of our operations and workplace.

The export of certain of our products from the U.S. is subject to various U.S. regulations, including laws and regulations relating to import-export controls, technology transfers, the International Traffic in Arms Regulations (“ITAR”), and the Export Administration Regulations (“EAR”). More specifically, to export some of our products in accordance with ITAR or EAR, we must obtain export authorizations or licenses from the U.S. government, primarily the U.S. Department of State for ITAR and the U.S. Department of Commerce for EAR. Also, the Arms Export Control Act of 1976 (“AECA”) requires that a certification be provided to the U.S. Congress prior to the granting of any license or other approval for certain transactions involving exports of any defense articles and defense services and for exports of major defense equipment.

Our business in Canada is subject to the Canadian Controlled Good Directorate Registration regime, which regulates commerce in controlled goods, meaning those that require a license to export, including ITAR items.

We are also subject to the Foreign Corrupt Practices Act (“FCPA”) along with similar anti-corruption laws worldwide which prohibit improper payments to foreign governments and their officials by U.S. and other business entities.

The transportation of certain of our products is subject to U.S. Department of Transportation Hazardous Material Regulations (“HMR”), which govern the transportation of hazardous materials in interstate, intrastate, and foreign commerce. Prior to transportation into and within the United States, explosives must be tested and classified by the U.S. Department of Transportation.

Domestically, the manufacture, sale, and purchase of certain products are subject to extensive federal, state, and local governmental regulation, with the primary regulatory body being the U.S. Bureau of Alcohol, Firearms, and Explosives (“ATF”). The primary federal laws are the National Firearms Act of 1934 (“NFA”), the Gun Control Act of 1968 (“GCA”) and the AECA. Among other things, the ATF conducts periodic audits of our facilities that hold Federal Firearms Licenses.

The Federal Acquisition Regulation (“FAR”) governs the majority of our contracts with U.S. federal agencies, mandating uniform policies and procedures across agencies and with each agency supplementing the FAR as needed. For example, the U.S. Department of Defense implements the FAR through the Defense Federal Acquisition Regulation Supplement (“DFARS”). Finally, agencies routinely audit and review government contractors for performance and compliance with applicable laws, regulations, and standards.

In addition, like many other manufacturers, we are subject to compliance with the Fair Labor Standards Act (“FLSA”), the Occupational Safety and Health Act (“OSHA”), data privacy laws, and many other regulations surrounding employment law, environmental law, taxation, and consumer protection.

Environmental Laws and Regulations

Our operations are subject to a variety of federal, state, and local laws and regulations relating to environmental protection, including those governing the discharge, treatment, storage, transportation, remediation, and disposal of hazardous materials and wastes; the restoration of damages to the environment; and health and safety matters. We have an excellent workplace safety track record and believe that our operations are in material compliance with these laws and regulations. We incur expenses in complying with environmental requirements and could incur higher costs in the future as a result of more stringent requirements that may be enacted in the future.

Impact of COVID-19

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the U.S., and European governments in March 2020, with governments world-wide implementing safety measures restricting travel and requiring citizen lockdowns and self-confinements for quarantining purposes. During the years ended December 31, 2020, 2021, and 2022, this had negatively affected the U.S. and global economies, disrupted global supply chains, and resulted in significant transport restrictions and disruption of global financial markets.

An outbreak of disease or similar public health threat, such as the COVID-19 pandemic, could have, and in the case of the COVID-19 pandemic has had and may continue to have, a significant impact on the global supply chain, with restrictions and limitations on related activities causing disruption and delay, along with increased raw material, storage, and shipping costs. Any of these disruptions and delays may strain domestic and international supply chains, which could negatively affect the flow or availability of certain critical raw materials and finished good products that the Company relies upon. Furthermore, the foregoing impacts may negatively affect our logistical operations, including our fulfillment and shipping functions, which could result in periodic delays in the delivery of our products.

We expect that an outbreak of disease or similar public health threat, such as the COVID-19 pandemic, could have, and in the case of the COVID-19 pandemic may continue to have, an impact on the Company’s sales and profitability in future periods. The duration of these trends and the magnitude of such impacts cannot be precisely estimated at this time, as they are affected by a number of factors (some of which are outside management’s control), including those presented in Item 1A. Risk Factors.

Available Information

Our Internet address is www.cadre-holdings.com. We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, and the proxy statement for our annual meeting of stockholders as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Forms 3, 4 and 5 filed with respect to our equity securities under Section 16(a) of the Securities Exchange Act of 1934, as amended, are also available on our website. All of the foregoing materials are located at the “SEC Filings” tab. The information found on our website shall not be deemed incorporated by reference by any general statement incorporating by reference this report into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such laws. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. In addition, you may request a copy of any such materials, without charge, by submitting a written request to: Cadre Holdings, Inc., c/o the Secretary,

13386 International Parkway, Jacksonville, FL 32218. The contents of the websites identified above are not incorporated into this Annual Report on Form 10-K.

Item 1A. Risk Factors

RISK FACTORS

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

Risk Factor Summary

- The products we sell are inherently risky and could give rise to product liability, product warranty claims, and other loss contingencies.
- Our markets are highly competitive, and if we are unable to compete effectively, we will be adversely affected.
- Technological advances, the introduction of new products, and new design and manufacturing techniques could adversely affect our operations unless we are able to adapt to the resulting change in conditions.
- We may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing capital stock that would dilute your ownership.
- We may be unsuccessful in our future acquisition endeavors, if any, which may have an adverse effect on our business; in addition, some of the businesses we acquire may incur significant losses from operations.
- Our business and growth may suffer if we are unable to attract and retain key officers or employees, including our Chief Executive Officer, Warren B. Kanders, as well as any loss of officers or employees due to illness or other events outside of our control.
- We are uncertain of our ability to manage our growth.
- We have significant payment obligations under the terms of our long-term debt, \$151.3 million of which was outstanding as of December 31, 2022.
- The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.

Risks Related to Our Industry

The products we sell are inherently risky and could give rise to product liability, product warranty claims, and other loss contingencies.

The products that we manufacture are typically used in applications and situations that involve high levels of risk of personal injury. Failure to use our products for their intended purposes, failure to use or care for them properly, or their malfunction, or, in some limited circumstances, even correct use of our products, could result in serious bodily injury or death. Given this potential risk of injury, proper maintenance of our products is critical. Our products include: body armor and plates designed to protect against ballistic and sharp instrument penetration; explosive ordnance disposal products; police duty gear; and crowd control products.

Claims have been made, and are pending against certain of our subsidiaries, involving permanent physical injury and death allegedly caused by our products or arising from the design, manufacture or sale of such goods. If these claims are decided against us and we are found to be liable, we may be required to pay substantial damages and our insurance costs may increase significantly as a result, which could have a material adverse effect on our business, financial condition and results of operations. Also, a significant or extended lawsuit, such as a class action, could divert significant amounts of management's time and attention.

We cannot assure you that our insurance coverage would be sufficient to cover the payment of any potential claim. In addition, we cannot assure you that this or any other insurance coverage will continue to be available or, if available, that we will be able to obtain it at a reasonable cost. Any material uninsured loss could have a material adverse effect on our business, financial condition and results of operations. In addition, the inability to obtain product liability coverage would prohibit us from bidding for orders from certain governmental customers because, at present, many bids from governmental entities require such coverage, and any such inability would have a material adverse effect on our business, financial condition, results of operations and liquidity.

Furthermore, while our products are rigorously tested for quality, our products nevertheless do, and may continue to, fail to meet customer expectations from time-to-time. Also, not all defects are immediately detectible. Failures could result from faulty design or problems in manufacturing. In either case, we could incur significant costs to repair and/or replace defective products under warranty. We have experienced such failures in the past, and remain exposed to such failures. In some cases, product redesigns and/or rework may be required to correct a defect, and such occurrences could adversely impact future business with affected customers. Our business, financial condition, results of operations and liquidity could be materially and adversely affected by any unexpected significant warranty costs.

We are subject to extensive government regulations, and our failure or inability to comply with these regulations could materially restrict our operations and subject us to substantial penalties.

We are subject to federal licensing requirements with respect to the export of certain of our products. In addition, we are obligated to comply with a variety of federal, state and local regulations, both domestically and abroad, governing certain aspects of our sales, operations and workplace, including regulations promulgated by, among others, the U.S. Departments of Commerce, Defense, Justice, Treasury, State and Transportation, the Federal Aviation Administration, the U.S. Environmental Protection Agency, the U.S. Bureau of Alcohol, Tobacco and Firearms, and the Equal Employment Opportunity Commission. The U.S. Bureau of Alcohol, Tobacco and Firearms also regulates our manufacturing and distribution of certain destructive devices, firearms, and explosives. We also ship hazardous goods, and in doing so, must comply with the regulations of the U.S. Department of Transportation for packaging and labeling. We are also required to comply with Controlled Goods Directorate Registration regime in Canada for explosive ordnance disposal products. Additionally, the failure to obtain applicable governmental approval and clearances could materially adversely affect our ability to continue to service the government contracts we maintain. Exports of some of our products to certain international destinations may require export authorization from U.S. export control authorities, including the U.S. Departments of Commerce and State, and authorizations may be conditioned on re-export restrictions. Failure to receive these authorizations may materially adversely affect our revenues and in turn our business, financial condition, results of operations and liquidity from international sales. Furthermore, we have material contracts with governmental entities and are subject to rules, regulations and approvals applicable to government contractors. We are also subject to routine audits to assure our compliance with these requirements.

While we continually work to enhance our international trade compliance programs, we cannot assure you that we are or will be in full compliance at all times with applicable laws and regulations governing the export and deemed export of defense articles, defense services, and dual-use products and services that are controlled by U.S. and/or foreign governments. In those instances where we have identified non-compliances with applicable laws or regulations, we have taken affirmative steps to correct or mitigate such identified failures and to self-report them to the cognizant U.S. or foreign government agencies. We also import significant volumes of foreign-made components and materials for use in our manufacturing processes, which may be subject to import duties and other regulations. Violations of international trade (export/ import) controls in the U.S. and elsewhere may result in severe criminal and/or civil penalties, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Like other companies operating internationally, we are subject to the U.S. Foreign Corrupt Practices Act and other laws that prohibit improper payments to foreign governments and their officials by U.S. and other business entities. We operate in countries known to experience endemic corruption. Our extensive operations in such countries create risk of an unauthorized payment by one of our employees or agents, which would be in violation of various laws including the Foreign Corrupt Practices Act. Violations of the Foreign Corrupt Practices Act may result in severe criminal penalties, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We have significant international operations and assets and, therefore, are subject to additional financial and regulatory risks.

We sell our products in foreign countries and seek to increase our level of international business activity. Our overseas operations are subject to various risks, including: U.S.-imposed embargoes and/or sanctions of sales to specific countries (which could prohibit sales of our products there); foreign import controls (which may be arbitrarily imposed and enforced and which could interrupt our supplies or prohibit customers from purchasing our products); exchange rate fluctuations; dividend remittance restrictions; expropriation of assets; war, civil uprisings and riots; government instability; the necessity of obtaining government approvals for both new and continuing operations; and legal systems of decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied.

One component of our strategy is to expand our operations into selected international markets. Military procurement, for example, has traditionally had a large international base. We actively market our products in Europe, North and South America, the Middle East, Africa, and Asia. However, we may be unable to execute our business model in these markets or new markets. Further, foreign providers of competing products and services may have a substantial advantage over us in attracting consumers and businesses in their countries due to earlier established businesses in those countries, greater knowledge with respect to the cultural differences of consumers and businesses residing in those countries and/or their focus on a single market. In pursuing our international expansion strategy, we face several additional risks, including:

- foreign laws and regulations, which may vary by country, that may impact how we conduct our business;
- uncertain costs of doing business in foreign countries, including different employment laws;
- potential adverse tax consequences if taxing authorities in different jurisdictions worldwide disagree with our interpretation of various tax laws or our determinations as to the income and expenses attributable to specific jurisdictions, which could result in our paying additional taxes, interest and penalties;
- technological differences that vary by marketplace, which we may not be able to support;
- longer payment cycles and foreign currency fluctuations;
- economic downturns; and
- uncertainty of sustained revenue growth outside of the United States.

We may also be subject to unanticipated income taxes, excise duties, import taxes, export taxes or other governmental assessments. In addition, a percentage of the payments to us in our international markets are often in local currencies. Although most of these currencies are presently convertible into U.S. dollars, we cannot be sure that convertibility will continue. Even if currencies are convertible, the rate at which they convert is subject to substantial fluctuation. Our ability to transfer currencies into or out of local currencies may be restricted or limited. Any of these events could result in a loss of business or other unexpected costs, which could reduce revenue or profits and have a material adverse effect on our business, financial condition, results of operations and liquidity.

We routinely operate in areas where local government policies regarding foreign entities and the local tax and legal regimes are often uncertain, poorly administered and in a state of flux. We cannot, therefore, be certain that we are in compliance with, or will be protected by, all relevant local laws and taxes at any given point in time. A subsequent determination that we failed to comply with relevant local laws and taxes could have a material adverse effect on our business, financial condition, results of operations and liquidity. One or more of these factors could adversely affect our future international operations and, consequently, could have a material adverse effect on our business, financial condition, results of operation and liquidity.

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

We are subject to risks generally associated with doing business internationally. Some of our operations are conducted or products are sold in countries where economic growth has slowed, or where economies have suffered economic, social and/or political instability or hyperinflation. In addition, global economic uncertainty relating to the effects of fiscal and political crises and political and economic disputes, current or future 'trade wars,' changes in consumer spending, foreign currency exchange rate fluctuations, political unrest, wars, terrorist acts, and/or military operations, could have a material adverse effect on our financial condition, results of operations and cash flows.

The conflict between Russia and Ukraine could have a material adverse effect on our operations, results of operations, financial condition, liquidity and business outlook.

There is continued, sustained military conflict between Russia and Ukraine and continued disruption in the region is likely. As a result, new and stricter sanctions have been imposed by the U.S., Canada, the United Kingdom, the European Union, and other countries and organizations against officials, individuals, regions, and industries in Russia. Russia's potential response to such sanctions, as well as prolonged unrest, intensified military activities and/or the implementation of more extensive sanctions impacting the region could have a material adverse effect on our operations, results of operations, financial condition, liquidity and business outlook.

Pandemics, epidemics or other disease outbreaks may negatively impact our business operations, financial condition, liquidity, and consolidated results of operations.

A widespread outbreak of disease can adversely affect the operation of our customers' businesses, which could lead to a material decline in demand for our products and services and our customers' ability to pay us for the products and services we have provided to them. A pandemic could also have material negative impact on the operation of our vendors' and suppliers' businesses and effect their ability to provide us the products and services we rely on to conduct our business and provide products and services to our customers. A widespread outbreak could potentially result in the infection of the Company's employees and diminish our ability to operate our business, service our customers or produce and sell our products. These potential negative impacts to our business could negatively impact our financial results and thereby reduce our operating results and borrowing capacity, which could limit our ability to operate our business. These situations can also lead to a general downturn in the equity markets which could negatively impact the value of the Company's shares as well as increase the cost to the Company to raise equity capital. Any and all of the above situations could have a material adverse impact on our operations, results of operations, financial condition, liquidity and business outlook. Beginning in 2020, we felt the impact of the COVID-19 pandemic and related shelter-in-place orders which materially reduced the demand for many of our customers products and services which consequently negatively impacted the demand for our products and services from time to time. The pandemic also resulted in thousands of hours of lost work time for our employees due to illness or steps taken to reduce the spread of the COVID-19 virus. While our customers appear to have resumed business operations that are similar to pre-COVID activities, we cannot predict whether future variants of COVID-19 might cause further slowdowns of cessation of business activities. As a result, we cannot predict the impact that the COVID-19 pandemic might have on our business and operating results in the future

The impacts of the COVID-19 pandemic have resulted in ongoing disruptions and delays in manufacturing, shipping and transportation of our products that have had an adverse effect on our business and results of operations, and we expect this adverse impact to continue.

The COVID-19 pandemic also has the potential to significantly impact our supply chain if the factories that manufacture our products, the distribution centers where we manage our inventory, or the operations of our logistics and other service providers are disrupted, temporarily closed or experience worker shortages. Current vessel, container and other transportation shortages, labor shortages and port congestion globally have delayed and are expected to continue to delay inventory orders and, in turn, deliveries to our customers. These supply chain and logistics disruptions have impacted our inventory levels and net revenues in 2022 and could impact our sales volumes in future periods. We have also incurred in 2022 higher freight and other distribution costs, including air freight, to mitigate these delays. We are also seeing negative impacts to pricing of certain components of our products as a result of the COVID-19 pandemic. In the event we increase prices of our products, there can be no assurance that consumers will accept such increases, which could have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as the trading price of our common stock.

Risks Related to Our Business

Many of our customers have fluctuating budgets, which may cause substantial fluctuations in our results of operations.

Customers for our products include domestic and international first responders such as state and local law enforcement, fire and rescue, explosive ordnance disposal technicians, emergency medical technicians, fishing and wildlife enforcement and departments of corrections, as well as federal agencies and numerous foreign government agencies. Government tax revenues and budgetary constraints, which fluctuate from time to time, can affect budgetary allocations for these customers. Many domestic and foreign government agencies have in the past experienced budget deficits that have led to decreased spending in defense, law enforcement and

other military and security areas. In addition, first responder budgets have been the subject of increased discussions as a result of controversies relating to police reform. Our results of operations may be subject to substantial period-to-period fluctuations because of these and other factors affecting military, law enforcement and other governmental spending. A reduction of funding for state, local, municipal as well as federal and foreign governmental agencies could have a material adverse effect on sales of our products and our business, financial condition, results of operations and liquidity.

Our markets are highly competitive, and if we are unable to compete effectively, we will be adversely affected.

The markets in which we operate include a large number of competitors ranging from small businesses to multinational corporations and are highly competitive. Competitors who are larger, better financed and better known than us may compete more effectively than we can. In order to stay competitive in our industry, we must keep pace with changing technologies and customer preferences. If we are unable to differentiate our services from those of our competitors, our revenues may decline. In addition, our competitors have established relationships among themselves or with third parties to increase their ability to address customer needs. As a result, new competitors or alliances amongst competitors may emerge and compete more effectively than we can. There is also a significant industry trend towards consolidation, which may result in the emergence of companies which are better able to compete against us. Any such development could have a material adverse effect on our business, financial condition, results of operations and liquidity.

There are limited sources for some of our raw materials and components, which may significantly curtail our manufacturing operations.

The raw materials and components that we use to manufacture our products, include SpectraShield[®], a patented product of Honeywell, Inc.; Kevlar[®], a patented product of E.I. du Pont de Nemours Co., Inc.; Dyneema[®], a patented product of Koninklijke DSM N.V.; and Twaron[®], a patented product of Teijin Limited, amongst others, which we use in manufacturing ballistic resistant garments. We purchase the materials and components that we use in manufacturing ballistic resistant garments directly from these suppliers and also through five independent weaving companies. The supply of the materials and components that we use to manufacture our products may be constrained by a number of factors, including a supplier's need to prioritize the manufacture of rated orders issued under the Defense Production Act of 1950 (the "DPA"). We cannot predict when the United States government will invoke the DPA, and in the past we have faced shortages from our sources of materials and components when the DPA has been invoked, including shortages in the raw materials and components that we use in manufacturing ballistic resistant garments.

Should these materials or components become unavailable for any reason, we would not necessarily be able to replace them with materials or components of like weight and strength, as our ballistic resistant garments must be manufactured to specific standards using specific materials and components that are not necessarily interchangeable based on metrics such as weight and strength. When we have faced shortages in the past, we have been able to ameliorate the issue by obtaining substitutable alternative materials and components from other commercially available sources. However, the use of alternative materials and components in our ballistic resistant garments requires research and development, recertification as well as customer acceptance of the new products utilizing these alternative materials and components, and there is no guarantee that any such recertification or acceptance will be obtained by us. Thus, if our supply of any of these materials or components were materially reduced or cut off or if there were a material increase in the prices of these materials or components, our manufacturing operations could be adversely affected and our costs increased, and our business, financial condition, results of operations and liquidity could be materially adversely affected.

Our resources may be insufficient to manage demand.

As we expand our operations, any growth may place significant demands on our management, administrative, operating and financial resources. The growth of our customer base, the types of services and products offered and the geographic markets we serve could place a significant strain on our resources. In addition, we cannot easily identify and hire personnel qualified both in the provision and marketing of our products and systems. Our future performance and profitability will depend in large part on our ability to attract and retain additional management and other key personnel; our ability to implement successful enhancements to our management, accounting and information technology systems; and our ability to adapt those systems, as necessary, to respond to any growth in our business.

We are dependent on industry relationships.

A number of our products are components in our customers' final products. Accordingly, to gain market acceptance, we must demonstrate that our products will provide advantages to the manufacturers of final products, including increasing the safety of their products, providing such manufacturers with competitive advantages or assisting such manufacturers in complying with existing or new government regulations affecting their products. There can be no assurance that our products will be able to achieve any of these advantages for the products of our customers. Furthermore, even if we are able to demonstrate such advantages, there can be no assurance that such manufacturers will elect to incorporate our products into their final products, or if they do, that our products will be able to meet such customers' manufacturing requirements. Additionally, there can be no assurance that our relationships with our manufacturer customers will ultimately lead to volume orders for our products. The failure of manufacturers to incorporate our products into their final products could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We may be unable to protect our proprietary technology.

We depend upon a variety of methods and techniques that we regard as proprietary trade secrets. We also depend upon a variety of trademarks, service marks and designs to promote brand name development and recognition. We rely on a combination of trade secret, copyright, patent, trademark, unfair competition and other intellectual property laws as well as contractual agreements to protect our rights to such intellectual property. Due to the difficulty of monitoring unauthorized use of and access to intellectual property, however, such measures may not provide adequate protection. It is possible that our competitors may access our intellectual property and proprietary information and use it to their advantage. In addition, there can be no assurance that courts will always uphold our intellectual property rights, or enforce the contractual arrangements that we have entered into to protect our proprietary technology. Any unenforceability or misappropriation of our intellectual property could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Furthermore, we cannot assure you that any pending patent application or trademark application made by us will result in an issued patent or registered trademark, or that, if a patent is issued, it will provide meaningful protection against competitors or competitor technologies. In addition, if we bring or become subject to litigation to defend against claimed infringement of our rights or of the rights of others or to determine the scope and validity of our intellectual property rights, such litigation could result in substantial costs and diversion of our resources, which could have a material adverse effect on our business, financial condition, results of operations and liquidity. Unfavorable results in such litigation could also result in the loss or compromise of our proprietary rights, subject us to significant liabilities, require us to seek licenses from third parties on unfavorable terms, or prevent us from manufacturing or selling our products, any of which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Technological advances, the introduction of new products, and new design and manufacturing techniques could adversely affect our operations unless we are able to adapt to the resulting change in conditions.

Our future success and competitive position depend to a significant extent upon our proprietary technology. We must make significant investments to continue to develop and refine our technologies. We will be required to expend substantial funds for and commit significant resources to research and development activities, the engagement of additional engineering and other technical personnel, the purchase of advanced design, production and test equipment, and the enhancement of design and manufacturing processes and techniques. Our future operating results will depend to a significant extent on our ability to continue to provide design and manufacturing services for new products that compare favorably on the basis of time to introduction, cost and performance with the design and manufacturing capabilities. The success of new design and manufacturing services depends on various factors, including utilization of advances in technology, innovative development of new solutions for customer products, efficient and cost-effective services, timely completion and delivery of new product solutions and market acceptance of customers' end products. Because of the complexity of our products, we may experience delays from time to time in completing the design and manufacture of new product solutions. In addition, there can be no assurance that any new product solutions will receive or maintain customer or market acceptance. If we are unable to design and manufacture solutions for new products of our customers on a timely and cost-effective basis, such inability could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We may be adversely affected by applicable environmental, health and safety laws and regulations.

We are subject to federal, state, local and foreign laws and regulations governing environment, health and safety (“EHS”) matters, including those regulating discharges to the air and water, the management of wastes, the control of noise and odors, and the maintenance of a safe and healthy operating environment for our employees. We cannot assure you that we are at all times in complete compliance with all such requirements. Like all companies in our industry, we are subject to potentially significant fines or penalties if we fail to comply with various EHS requirements. Such requirements are complex, change frequently, and could become more stringent in the future. Accordingly, we cannot assure you whether these requirements will change in a manner requiring material capital or operating expenditures or will otherwise have a material adverse effect on us in the future. In addition, we are also subject to environmental laws requiring the investigation and clean-up of environmental contamination. We may be subject to liability, including liability for clean-up costs, if contamination is discovered at one of our current or former facilities, in some circumstances even if such contamination was caused by a third party such as a prior owner. We also may be subject to liability if contamination is discovered at a landfill or other location where we have disposed of wastes, notwithstanding that historic disposal practices may have been in accordance with all applicable requirements. We use Orthochlorabenzalmalononitrile and Chloroacetophenone chemical agents in connection with our production of our crowd control products, and these chemicals are hazardous and could cause environmental damage if not handled and disposed of properly. Moreover, private parties may bring claims against us based on alleged adverse health impacts or property damage caused by our operations. The amount of liability for cleaning up contamination or defending against private party claims could be material and have a material adverse effect on our business, financial condition, results of operations and liquidity.

The effects of climate change and increased focus by governmental and non-governmental organizations, customers, consumers and investors on sustainability issues, including those related to climate change and socially responsible activities, may adversely affect our business and financial results and damage our reputation.

Climate change is occurring around the world and may impact our business in numerous ways. Such change could lead to an increase in raw material and packaging prices, reduced availability, for example, due to water shortages which could adversely impact raw material availability. Increased frequency of extreme weather (storms and floods) could cause increased incidence of disruption to the production and distribution of our products and an adverse impact on consumer demand and spending.

Investor advocacy groups, certain institutional investors, investment funds, other market participants, shareholders, and stakeholders have focused increasingly on the environmental, social and governance (“ESG”) and related sustainability practices of companies. These parties have placed increased importance on the implications of the social cost of their investments. If our ESG practices do not meet investor or other stakeholder expectations and standards, which continue to evolve, our brands, reputation and employee retention may be negatively impacted. It is possible that stakeholders may not be satisfied with our ESG practices or the speed of their adoption. We could also incur additional costs and require additional resources to monitor, report, and comply with various ESG practices. Also, our failure, or perceived failure, to manage reputational threats and meet expectations with respect to socially responsible activities and sustainability commitments could negatively impact our credibility, employee retention, and the willingness of our customers and suppliers to do business with us.

We may lose money or generate less than expected profits on our fixed-price contracts.

Our direct government contracts are primarily fixed-price for a specified term. Under these contracts, we agree to perform a specific scope of work or deliver a certain quantity of end items for a fixed price. Typically, we assume more risk with fixed-price contracts since we are subject to rising labor costs and commodity price risk. Fixed-price contracts require us to price our contracts by forecasting our expenditures. When making proposals for fixed-price contracts, we rely on our estimates of costs and timing for completing these projects. These estimates reflect management’s judgments regarding our capability to complete projects efficiently and timely. Our production costs may, however, exceed forecasts due to unanticipated delays or increased cost of materials, components, labor, capital equipment or other factors. Therefore, we may incur losses on fixed price contracts that we had expected to be profitable, or such contracts may be less profitable than expected, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

As it relates to our Product segment, fixed-price contracts represented less than 10% of annual net sales in 2022. For our Distribution segment, we estimate that fixed-price contracts represented approximately 55% of annual net sales in 2022.

Our business is subject to various laws and regulations favoring the U.S. government’s contractual position, and our failure to comply with such laws and regulations could harm our operating results and prospects.

As a direct and indirect contractor to the U.S. government, we must comply with laws and regulations relating to the formation, administration and performance of federal government contracts, which effect how we do business with our clients and may impose added costs on our business. These rules generally favor the U.S. government’s contractual position.

For example, these regulations and laws include provisions that subject contracts we have been awarded to:

- protest or challenge by unsuccessful bidders; and
- unilateral termination, reduction or modification by the government.

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. Responding to governmental audits, inquiries or investigations may involve significant expense and divert management’s attention. Our failure to comply with these or other laws and regulations could result in contract termination, suspension or debarment from contracting with the federal government, civil fines and damages and criminal prosecution and penalties, any of which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Our Chief Executive Officer has divided responsibilities and is not required to devote any specified amount of time to our business.

Our Chief Executive Officer, Warren B. Kanders, is also the Executive Chairman of Clarus Corporation, which is in the business of designing, manufacturing, and marketing equipment for outdoor recreation activities. Our employment agreement with Mr. Kanders requires that he devote his time, attention, energy, knowledge, best professional efforts and skills to the duties assigned to him by us, but he is permitted to pursue other professional endeavors and investments that do not violate the terms of his employment agreement, including provisions relative to non-competition. Mr. Kanders’ employment agreement does not require him to devote any specific amount of time to the Company. Accordingly, it is possible that Mr. Kanders will fail to devote the necessary time to our Company which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We may be subject to disruptions, failures or cyber-attacks in our information technology systems and network infrastructures that could have a material adverse effect on us.

We maintain and rely extensively on information technology systems and network infrastructures for the effective operation of our business. Techniques used to gain unauthorized access to private networks are constantly evolving, and we may be unable to anticipate or prevent unauthorized access to data pertaining to our customers, including credit card and debit card information and other personally identifiable information. Like all Internet services, our direct-to-consumer service, which is supported by our own systems and those of third-party vendors, is vulnerable to computer viruses, Internet worms, break-ins, phishing attacks, attempts to overload servers with denial-of-service or other attacks and similar disruptions from unauthorized use of our and third-party vendor computer systems, any of which could lead to system interruptions, delays or shutdowns, causing loss of critical data or the unauthorized access to personally identifiable information. If an actual or perceived breach of our systems or a vendor’s systems security occurs, we may face civil liability and public perception of our security measures could be diminished, either of which would negatively affect our ability to attract customers, which could have a material adverse effect on our business. We also would be required to expend significant resources to mitigate the breach of security and to address related matters.

Further, a disruption, infiltration or failure of our information technology systems or any of our data centers including the systems and data centers of our third-party vendors as a result of software or hardware malfunctions, computer viruses, cyber-attacks, employee theft or misuse, power disruptions, natural disasters or accidents could cause breaches of data security and loss of critical data, which in turn could materially adversely affect our business.

We cannot fully control the actions of third parties who may have access to the customer data we collect and the customer data collected by our third party vendors. We may be unable to monitor or control such third parties and the third parties having access to our other websites in their compliance with the terms of our privacy policies, terms of use, and other applicable contracts, and we may

be unable to prevent unauthorized access to, or use or disclosure of, customer information. Any such misuse could hinder or prevent our efforts with respect to growth opportunities and could expose us to liability or otherwise adversely affect our business. In addition, these third parties may become the victim of security breaches or have practices that may result in a breach, and we could be responsible for those third-party acts or failures to act.

Any failure, or perceived failure, by us or the prior owners of acquired businesses to maintain the security of data relating to our customers and employees, to comply with our posted privacy policies, our predecessors' posted policies, laws and regulations, rules of self-regulatory organizations, or industry standards and contractual provisions to which we or they may be bound, could result in the loss of confidence in us, or result in actions against us by governmental entities or others, all of which could result in litigation and financial losses, and could potentially cause us to lose customers, revenue and employees.

Initiatives to upgrade our business processes and information technology systems to optimize our operational and financial performance involve many risks which could result in, among other things, business interruptions, higher costs and lost profits.

We regularly implement business process improvement and information technology initiatives intended to optimize our operational and financial performance. Transitioning to these new or upgraded processes and systems requires significant capital investments and personnel resources. Implementation is also highly dependent on the coordination of numerous employees, contractors and software and system providers. The interdependence of these processes and systems is a significant risk to the successful completion and continued refinement of these initiatives, and the failure of any aspect could have a material adverse effect on the functionality of our overall business. We may also experience difficulties in implementing or operating our new or upgraded business processes or information technology systems, including, but not limited to, ineffective or inefficient operations, significant system failures, system outages, delayed implementation and loss of system availability, which could lead to increased implementation and/or operational costs, loss or corruption of data, delayed shipments, excess inventory and interruptions of operations resulting in lost sales and/or profits.

We rely on information technology systems, including third-party cloud-based solutions, and any failure of these systems may result in disruptions or outages, loss of processing capabilities, and/or loss of data, any of which may have a material adverse effect on our financial condition, results of operations or cash flow.

Our reputation and ability to attract, retain and serve consumers is dependent upon the reliable performance of our underlying technology infrastructure and external service providers, including third-party cloud-based solutions. These systems are vulnerable to damage or interruption and we have experienced interruptions in the past. We rely on cloud-based solutions furnished by third parties primarily to allocate resources, pay vendors, collect from customers, process transactions, develop demand and supply plans, manage product design, production, transportation, and distribution, forecast and report operating results, meet regulatory requirements and administer employee payroll and benefits, among other functions. We have also designed a significant portion of our software and computer systems to utilize data processing and storage capabilities from third-party cloud solution providers. Both our on-premises and cloud-based infrastructure may be susceptible to outages due to any number of reasons, including, human error, fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. Despite the implementation of security measures that we believe to be reasonable, both our on-premises and our cloud-based infrastructure may also be vulnerable to hacking, computer viruses, the installation of malware and similar disruptions either by third-parties or employees, which may result in outages. We do not have redundancy for all of our systems and our disaster recovery planning may not account for all eventualities. If we or our existing third-party cloud-based solution providers experience interruptions in service regularly or for a prolonged basis, or other similar issues, our business could be seriously harmed and, in some instances, our consumers may not be able to purchase our products, which could significantly and negatively affect our sales. Additionally, our existing cloud-based solution providers have broad discretion to change and interpret their terms of service and other policies with respect to us, and they may take actions beyond our control that could harm our business. We also may not be able to control the quality of the systems and services we receive from our third-party cloud-based solution providers. Any transition of the cloud-based solutions currently provided to different cloud providers would be difficult to implement and may cause us to incur significant time and expense.

If we and/or our cloud-based solution providers are not successful in preventing or effectively responding to outages and cyberattacks, our financial condition, results of operations and cash flow could be materially and adversely affected.

Additionally, information technology systems require periodic modifications, upgrades, and replacement that subject us to costs and risks, including potential disruption to our internal control structure, substantial capital expenditures, additional administration and

operating expenses, retention of sufficiently skilled personnel or outside firms to implement and operate existing or new systems, and other risks and costs of delays or difficulties in transitioning to new or modified systems or of integrating new or modified systems into our current systems. In addition, challenges implementing new or modified technology systems may cause disruptions in our business operations and, if not anticipated and appropriately mitigated, could have a material adverse effect on our business operations.

Misuse of our products may adversely affect the Company's reputation.

The target end users of the products that we sell, which include firearms, ammunition and body armor, are licensed professionals that include state and local law enforcement, federal agencies, foreign police, military agencies as well as private security firms. However, if any misuse of our products were to occur, the Company's reputation could be harmed. The occurrence of any misuse of our products could seriously damage our reputation and the image of our brands or cause our customers to consider alternatives to the Company's products, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Adverse publicity about the Company and/or its brands, including without limitation, through social media or in connection with brand damaging events and/or public perception, could negatively impact our business.

Negative claims or publicity involving us, our board of directors, our brands, our products, services and experiences, consumer data, or any of our key employees, or suppliers could seriously damage our reputation and the image of our brands, regardless of whether such claims are accurate. Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Negative attention or scrutiny on the various products sold by our brands can also possibly result in negative publicity. For example, heightened governmental scrutiny of the safety of crowd control products has resulted in requests by two subcommittees of the U.S. House Committee on Oversight and Reform for information from major U.S. manufacturers, including us, relating to the production, sale, safety, and regulation of crowd control products. Congressional scrutiny and other similar inquiries by governmental bodies may damage our reputation and may also result in potential legislation designed to regulate the various products sold by our brands.

Adverse publicity could also damage our reputation and the image of our brands, undermine consumer confidence in us and reduce long-term demand for our products, even if such adverse publicity is unfounded or not material to our operations. If the reputation, culture or image of any of our brands is tarnished or receives negative publicity, then our business, financial condition, results of operations and liquidity could be materially adversely affected.

The terms of our outstanding long-term debt and any requirements to incur further indebtedness or refinance our outstanding indebtedness in the future could have a material adverse effect on our business and results of operations.

Our significant payment obligations under the terms of our long-term debt, \$151.3 million of which was outstanding as of December 31, 2022, together with any additional indebtedness we may incur in the future (including under the New Credit Agreement (herein defined)), could adversely affect our business, financial condition, results of operations and prospects. For example, our indebtedness or any additional financing may:

- make it more difficult for us to pay or refinance debts as they become due;
- require us to use a larger portion of cash flow for debt service, reducing funds available for other purposes;
- limit our ability to pursue business opportunities, such as potential acquisitions, and to react to changes in market or industry conditions;
- reduce the funds available for other purposes, such as implementing our strategy, funding capital expenditures and making distributions to stockholders;
- increase our vulnerability to adverse economic, industry or competitive developments;
- affect our ability to obtain additional financing;
- decrease our profitability or cash flow, or require us to dispose of significant assets in order to satisfy debts and other obligations if we are not able to satisfy these obligations using cash from operations or other sources; and

- disadvantage us compared to competitors.

Any of the foregoing, alone or in combination, could have a material adverse effect on our business, financial condition, results of operations and prospects. A breach of, or the inability to comply with, the covenants in our term loan facility and revolving credit agreement could result in an event of default, in which case the lenders will have the right to declare all borrowings to be immediately due and payable, which would have a material adverse effect on our business, financial condition, results of operations and prospects and could lead to foreclosure on our assets

In the future, we may need to refinance our indebtedness. However, additional financing may not be available on favorable commercial terms to us, or at all. If, at such time, market conditions are materially different or our credit profile has deteriorated, the cost of refinancing such debt may be significantly higher than our indebtedness existing at that time. Furthermore, we may not be able to procure refinancing at all. Any failure to meet any future debt service obligations through use of cash flow, refinancing or otherwise, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business is significantly dependent on our ability to meet our labor needs.

The success of our business depends significantly on our ability to hire and retain quality team members, which include but are not limited to managers and other personnel. Competition for non-entry-level personnel, particularly those with experience in our industry, is highly competitive. We may be unable to meet our labor needs and control our costs due to external factors such as the availability of a sufficient number of qualified persons in the workforce of the markets in which we operate, competition, unemployment levels, demand for certain labor expertise, prevailing wage rates, wage inflation, changing demographics, health and other insurance costs, adoption of new or revised employment and labor laws and regulations, and the impacts of man-made or natural disasters, such as tornadoes, hurricanes, and public health emergencies, such as the ongoing COVID-19 pandemic. We have experienced, and expect to continue to experience, a shortage of labor for certain functions, which has increased our labor costs and negatively impacted our profitability. The extent and duration of the effect of these labor market challenges are subject to numerous factors, including the availability of qualified persons in the markets where we and our vendors and customers operate and unemployment levels within these markets, behavioral changes, prevailing wage rates and other benefits, inflation, adoption of new or revised employment and labor laws and regulations (including increased minimum wage requirements) or government programs, safety levels of our operations, and our reputation within the labor market.

Recent or potential future legislative initiatives may seek to increase the federal minimum wage in the United States, as well as the minimum wage in a number of individual states or markets. As federal or state minimum wage rates increase, we may need to increase not only the wage rates of our minimum wage team members, but also the wages paid to our other hourly team members as well. Further, should we fail to increase our wages competitively in response to increasing wage rates, the quality of our workforce could decline, causing our customer service to suffer. Additionally, the U.S. Department of Labor has proposed rules that may have salary and wage impact for “exempt” team members, which could result in a substantial increase in store payroll expense. Any increase in the cost of our labor could have an adverse effect on our operating costs, financial condition and results of operations, which in turn can materially adversely affect our business.

Although none of our employees are currently covered under collective bargaining agreements, we cannot guarantee that employees will not elect to be represented by labor unions in the future. If some or our entire workforce were to become unionized and collective bargaining agreement terms were significantly different from our current compensation arrangements or work practice, it could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Reductions in the availability of energy supplies or an increase in energy costs may increase our operating costs.

Electricity and natural gas are used to operate equipment at manufacturing facilities. Over the past several years, prices for electricity and natural gas have fluctuated significantly. An outbreak or escalation of hostilities between the United States and any foreign power, or between foreign powers, or a natural disaster, could result in a real or perceived shortage of petroleum and/or natural gas, which could result in an increase in the cost of electricity or energy generally as well as an increase in the cost of our raw materials, of which many are petroleum-based. In addition, increased energy costs negatively impact our freight costs due to higher fuel prices. Future limitations on the availability or consumption of petroleum products and/or an increase in energy costs, particularly electricity for plant operations, could have a material adverse effect upon our business, financial condition, results of operations and liquidity.

Risks Related to our Acquisition Strategy

A number of other companies are seeking to make acquisitions in our industry, which may make our acquisition strategy more difficult or expensive to pursue.

We compete with many other companies, and certain of them have greater financial resources than we do for pursuing and consummating acquisitions and to further develop and integrate acquired businesses. Our strategy of growing through the acquisition of businesses and assets relies on our ability to consummate acquisitions to develop and offer new products that foster the growth of our core business, and to establish ourselves in other geographic regions and related businesses in which we do not currently operate. Increased competition for acquisition opportunities may impede our ability to acquire these companies because they choose another acquirer. It could also increase the price that we must pay for these companies. Either of these outcomes could reduce our growth, harm our business and adversely impact our ability to consummate acquisitions.

We may be unsuccessful in identifying suitable acquisition candidates, which may negatively impact our competitive position and our growth strategy.

In addition to organic growth, our future growth will be driven by our selective acquisition of additional businesses, our competitors and complementary businesses. Our growth through acquisitions, to date, has consisted of 14 acquisitions and two divestitures. We may be unable to identify other suitable targets for future acquisition or acquire businesses at favorable prices, which would negatively impact our growth strategy. We may not be able to execute our growth strategy through organic expansion, and if we are unable to identify and successfully acquire new businesses complementary to ours, we may not be able to offer new products in line with industry trends.

The due diligence process that we undertake in connection with acquisitions may not reveal all facts that may be relevant in connection with an investment.

Before making acquisitions and other investments, we conduct due diligence of the target company that we deem reasonable and appropriate based on the facts and circumstances applicable to each acquisition. The objective of the due diligence process is to assess the investment opportunities based on the facts and circumstances surrounding an investment or acquisition. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. The due diligence process may at times be subjective with respect to newly-organized companies for which only limited information is available. Accordingly, we cannot be certain that the due diligence investigation that we conduct with respect to any investment or acquisition opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. For example, instances of fraud, accounting irregularities and other deceptive practices can be difficult to detect. Executive officers, directors and employees may be named as defendants in litigation involving a company we are acquiring or have acquired. Even if we conduct extensive due diligence on a particular investment or acquisition, we may fail to uncover all material issues relating to such investment, including regarding the controls and procedures of a particular target or the full scope of its contractual arrangements. We rely on our due diligence to identify potential liabilities in the businesses we acquire, including such things as potential or actual lawsuits, contractual obligations or liabilities imposed by government regulation. However, our due diligence process may not uncover these liabilities, and where we identify a potential liability, we may incorrectly believe that we can consummate the acquisition without subjecting ourselves to that liability. If our due diligence fails to identify issues specific to an investment or acquisition, we may obtain a lower return from that transaction than the investment would return or otherwise subject ourselves to unexpected liabilities.

We may face difficulty in integrating the operations of the businesses we have acquired and may acquire in the future.

Acquisitions have been and will continue to be an important component of our growth strategy; however, we will need to integrate these acquired businesses successfully in order for our growth strategy to succeed and for our Company to be profitable. We will implement, and the management teams of the acquired businesses will adopt, our policies, procedures and best practices. We may face difficulty with the integration of the businesses we acquire, such as coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. Furthermore, we may fail in implementing our policies and procedures, or the policies and procedures may not be effective or provide the results we anticipate for a particular business. Further, we will be relying on these policies and procedures in preparing our financial and other reports as a public company, so any failure of acquired businesses to properly adopt these policies and procedures could impair our public

reporting. Management of the businesses we acquire may not have the operational or business expertise that we require to successfully implement our policies, procedures and best practices.

We typically retain the management of the businesses we acquire and rely on them to continue running their businesses, which leaves us vulnerable in the event they leave our Company.

We seek to acquire businesses that have strong management teams that will continue to run the business after the acquisition. We often rely on these individuals to conduct the day-to-day operations, and pursue the growth, of these acquired businesses. Although we typically seek to sign employment agreements with the managers of acquired businesses, it remains possible that these individuals will leave our organization. This would harm the prospects of the businesses they manage, potentially causing us to lose money on our investment and harming our growth and financial results.

We may be required to take write downs or write-offs, restructuring, and impairment or other charges that could have a significant negative effect on our financial condition, results of operations and our stock price, which could cause you to lose some or all of your investment.

In connection with our general growth strategy of acquiring businesses and assets, we may be forced to write-down or write-off assets, restructure our operations, or incur impairment or other charges that could result in us reporting losses. Even though these charges may be non-cash items and not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our common stock.

Risks Related to Ownership of our Common Stock

Our executive officers, directors and principal stockholders, if they choose to act together, will continue to have the ability to control all matters submitted to stockholders for approval.

Our executive officers, directors and stockholders who own more than 5% of our outstanding common stock and their respective affiliates held, in the aggregate, shares representing approximately 49.3% of our outstanding voting stock. As a result, if these stockholders were to choose to act together, they would be able to control or significantly influence all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, would control or significantly influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of ownership control may:

- delay, defer or prevent a change in control;
- entrench our management and the board of directors; or
- impede a merger, consolidation, takeover or other business combination involving us that other stockholders may desire.

Shares of our common stock have been, and may continue to be, thinly traded, which may contribute to volatility in our stock price and less liquidity for investors.

The trading volume of our common stock has varied, and at times may be characterized as thinly traded. As a result of this thin trading market or “float” for our common stock, our common stock has been, and may continue to be, less liquid than the common stock of companies with broader public ownership. If our common stock is thinly traded, the trading of a relatively small volume of our common stock may have a greater impact on the trading price of our common stock than would be the case if our float were larger. As a result, the trading prices of our common stock may be more volatile than the common stock of companies with broader public ownership, and an investor be unable to liquidate an investment in our common stock at attractive prices.

We cannot predict the prices at which our common stock will trade in the future. Variations in financial results, announcements of material events, changes in our dividend policy, technological innovations or new products by us or our competitors, our quarterly operating results, changes in general conditions in the economy or government spending on law enforcement and military, other developments affecting us or our competitors or general price and volume fluctuations in the market are among the many factors that could cause the market price of our common stock to fluctuate substantially.

Our stock price may be volatile or may decline regardless of our operating performance, resulting in substantial losses for investors.

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates or ratings by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, operating results or capital commitments;
- changes in operating performance and stock market valuations of other technology or retail companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- changes in our board of directors or management;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- lawsuits threatened or filed against us;
- changes in laws or regulations applicable to our business;
- the expiration of contractual lock-up agreements;
- changes in our capital structure, such as future issuances of debt or equity securities;
- short sales, hedging and other derivative transactions involving our capital stock;
- general economic conditions in the United States and abroad;
- other events or factors, including those resulting from war, pandemics, incidents of terrorism or responses to these events; and
- the other factors described in the sections of the Annual Report on Form 10-K titled “Risk Factors” and “Special Note Regarding Forward-Looking Statements.”

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and have a materially adverse effect on our business, financial condition, results of operations and liquidity.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that such sales may have on the prevailing market price of our common stock.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including:

- not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act;
- reduced disclosure obligations regarding executive compensation in our periodic reports and annual report on Form 10-K; and
- exemptions from the requirements of holding non-binding advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We could be an emerging growth company until December 31, 2026. Our status as an emerging growth company will end as soon as any of the following takes place:

- the last day of the fiscal year in which we have more than \$1.07 billion in annual revenue;
- the date we qualify as a “large accelerated filer,” with at least \$700 million of equity securities held by non-affiliates;
- the date on which we have issued, in any three-year period, more than \$1.0 billion in non-convertible debt securities; or
- the last day of the fiscal year ending after the fifth anniversary of the completion of our initial public offering, which is December 31, 2026.

We cannot predict if investors will find our common stock less attractive if we choose to rely on any of the exemptions afforded emerging growth companies. If some investors find our common stock less attractive because we rely on any of these exemptions, there may be a less active trading market for our common stock and the market price of our common stock may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to avail ourselves of this provision of the JOBS Act. As a result, we will not be subject to new or revised accounting standards at the same time as other public companies that are not emerging growth companies. Therefore, our consolidated financial statements may not be comparable to those of companies that comply with new or revised accounting pronouncements as of public company effective dates.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 (the “Sarbanes Oxley Act”), the Dodd-Frank Wall Street Reform and Consumer Protection Act, new Securities and Exchange Commission regulations and NASDAQ rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance

practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations, and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock, which may also have the consequence of depressing the market price of our common stock.

Our status as a Delaware corporation and the anti-takeover provisions of Delaware law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- permitting the board of directors, and not stockholders, to establish the number of directors and fill any vacancies and newly created directorships;
- authorizing the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- restricting the forum for certain litigation against us to Delaware;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings;
- preventing stockholders from taking any action except at a formal meeting of stockholders;
- requiring certain amendments to our amended and restated certificate of incorporation to be approved by the holders of at least 66 2/3% of our then-outstanding common stock; and/or
- requiring that any special meeting of our stockholders will only be able to be called by a majority of our board of directors, the chairperson of our board of directors, our Chief Executive Officer, or our President.

These provisions, alone or together, may (a) frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to select or replace members of our board of directors, which is responsible for appointing the members of our management; (b) discourage, delay, or prevent a transaction involving a change in control of our Company; and/or (c) discourage proxy contests, any of which, under certain circumstances, could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the market price of our common stock.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware (or other state courts of the State of Delaware if the Court of Chancery in the State of Delaware does not have jurisdiction or the federal district court for the District of Delaware if no state court in the State of Delaware has jurisdiction) is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our certificate of incorporation or our bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine or any action asserting an “internal corporate claim” as that term is defined in Section 115 of the Delaware General Corporation Law. Our amended and restated bylaws provide that this choice of forum does not apply to any complaint asserting a cause of action under the Securities Act or the Exchange Act. Finally, our amended and restated bylaws provide that the federal district courts of the United States of America will be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act or the Exchange Act. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, a court may determine that this provision is unenforceable, and to the extent it is enforceable, the provision may have the effect of discouraging lawsuits

against our directors and officers, although our stockholders cannot waive our compliance with federal securities laws and the rules and regulations thereunder.

Our amended and restated bylaws provide that the exclusive forum provision will be applicable to the fullest extent permitted by applicable law. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. As a result, the exclusive forum provision will not apply to suits brought to enforce any duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction.

Our payment of future quarterly dividends on our common stock is subject to the discretion and approval of our board of directors.

On November 11, 2021, the Company announced that its board of directors approved the initiation of a quarterly cash dividend program of \$0.08 per share of the Company's common stock or \$0.32 per share on an annualized basis (the "Quarterly Cash Dividend"). While we intend to pay regular Quarterly Cash Dividends for the foreseeable future, all subsequent dividends will be reviewed quarterly and declared at the discretion and approval of our board of directors and will depend upon, among other things, our results of operations, capital requirements, general business conditions, contractual restrictions under our New Credit Agreement on the payment of dividends, legal and regulatory restrictions on the payment of dividends, and other factors our board of directors deems relevant. Therefore, you should not purchase our common stock if you need immediate or future income by way of dividends from your investment. In addition, upon an event of default under our New Credit Agreement, we are prohibited from declaring or paying any dividends on our common stock or generally making other distributions to our stockholders.

We could be subject to securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

Our amended and restated certificate of incorporation authorizes the issuance of shares of blank check preferred stock.

Our amended and restated certificate of incorporation provides that our board of directors will be authorized to issue from time to time, without further stockholder approval, up to 10,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. We may issue additional preferred stock in ways which may delay, defer or prevent a change in control of us without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

We may issue a substantial amount of our common stock in connection with future acquisitions, and the sale of those shares could adversely affect our stock price.

As part of our acquisition strategy, we anticipate issuing additional shares of common stock as consideration for such acquisitions. To the extent that we are able to grow through acquisitions and issue shares of our common stock as consideration, the number of outstanding shares of common stock that will be eligible for sale in the future is likely to increase substantially. Persons receiving shares of our common stock in connection with these acquisitions may be more likely to sell large quantities of their common stock, which may influence the price of our common stock. In addition, the potential issuance of additional shares in connection with anticipated acquisitions could lessen demand for our common stock and result in a lower price than would otherwise be obtained.

Techniques employed by short sellers or other derivative traders may drive down the market price of our common stock and/or spur litigation or regulatory action.

Short selling is the practice of selling securities that a seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. Short sellers hope to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement securities, as short sellers expect to pay less in that purchase than they received in the sale. As it is in short sellers' interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions and allegations regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

If we were to become the subject of unfavorable allegations contained in short reports, whether such allegations are proven to be true or untrue, we may have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would prefer to strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short sellers by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming, and could divert management's attention from our day-to-day operations. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact the market price of our common stock and our business operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our corporate headquarters located at 13386 International Parkway, Jacksonville, FL 32218 where we occupy approximately 36,941 square feet of office space and 95,283 square feet of manufacturing space. In total, we operate 19 facilities (8 owned) across the U.S., Canada, Mexico and Europe, spanning more than 1,000,000 square feet. Additionally, we lease 11 retail locations across the East Coast that service our Distribution segment. Our properties are well maintained, and we consider them to be sufficient for our existing capacity requirements.

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

<u>Primary Activity</u>	<u>Location</u>	<u>Country</u>	<u>Owned/Leased</u>	<u>Sq Ft</u>
Corporate HQ and Manufacturing	Jacksonville, Florida	USA	Owned	132,224
Manufacturing and R&D	Jacksonville, Florida	USA	Owned	63,000
Warehouse and Distribution	Jacksonville, Florida	USA	Leased	27,405
Manufacturing and R&D	Ontario, California	USA	Leased	41,475
Sales and R&D	Casper, Wyoming	USA	Owned	44,000
Manufacturing and R&D	Casper, Wyoming	USA	Owned	10,500
Manufacturing	Casper, Wyoming	USA	Owned	21,000
Manufacturing	Dalton, Massachusetts	USA	Leased	33,862
Manufacturing	Dover, Tennessee	USA	Leased	87,652
Manufacturing	Ogdensburg, New York	USA	Leased	23,220
Manufacturing and R&D	West Springfield, Massachusetts	USA	Owned	200,000
Manufacturing	Tijuana, Baja California	Mexico	Leased	158,614
Sales and R&D	Ottawa, Ontario	Canada	Leased	39,273
Manufacturing	Pembroke, Ontario	Canada	Leased	26,154
Manufacturing	Arnprior, Ontario	Canada	Leased	48,853
Manufacturing	Warrington, Cheshire	UK	Leased	21,958
Manufacturing	Kaunas	Lithuania	Leased	19,160
Manufacturing, Sales and R&D	Fucecchio	Italy	Leased/Owned	30,375
Manufacturing and Sales	Aix-en-Provence	France	Owned	20,387

Item 3. Legal Proceedings

Refer to Note 15 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has been listed on the New York Stock Exchange under the symbol "CDRE" since November 4, 2021. Prior to that date, there was no public trading market for our common stock.

Holders of Record

As of March 10, 2023, there were 17 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

Dividend Policy

On November 11, 2021, the Company announced that its Board of Directors approved the initiation of a quarterly cash dividend program of \$0.08 per share of the Company's common stock or \$0.32 per share on an annualized basis. In 2022, our total quarterly cash dividends were \$11.5 million. We expect to continue to pay a quarterly cash dividend of \$0.08 per share, or \$0.32 on an annualized basis, on our common stock for the foreseeable future, but we may elect to retain all of our future earnings, if any, to finance the growth and development of our business. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent on a number of factors, including the terms of our New Credit Agreement, our earnings, capital requirements, our overall financial condition and other factors that our board of directors considers relevant.

Recent Sales of Unregistered Securities

None.

Issuer Repurchases of Equity Securities

None.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of Cadre Holdings, Inc. (D/B/A The Safariland Group) ("Cadre," "the Company" "we," "us" and "our") should be read together with our audited consolidated financial statements as of and for the years ended December 31, 2022 and 2021 in each case together with related notes thereto, included elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside of Cadre's control. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in the sections entitled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" included elsewhere in this Annual Report on Form 10-K. Certain total amounts may not foot due to rounding.

Overview and 2022 Financial Highlights

Cadre is a global leader in the manufacturing and distribution of safety and survivability equipment for first responders. Our equipment provides critical protection to allow its users to safely and securely perform their duties and protect those around them in hazardous or life-threatening situations. Through our dedication to superior quality, we establish a direct covenant with end users that our products will perform and keep them safe when they are most needed. We sell a wide range of products including body armor, explosive ordnance disposal equipment and duty gear through both direct and indirect channels. In addition, through our owned distribution, we serve as a one-stop shop for first responders providing equipment we manufacture as well as third-party products including uniforms, optics, boots, firearms and ammunition. The majority of our diversified product offering is governed by rigorous safety standards and regulations. Demand for our products is driven by technological advancement as well as recurring modernization and replacement cycles for the equipment to maintain its efficiency, effective performance and regulatory compliance.

We service the ever-changing needs of our end users by investing in research and development for new product innovation and technical advancements that continually raise the standards for safety and survivability equipment in the first responder market. Our target end user base includes domestic and international first responders such as state and local law enforcement, fire and rescue, explosive ordnance disposal technicians, emergency medical technicians ("EMT"), fishing and wildlife enforcement and departments of corrections, as well as federal agencies including the U.S. Department of State ("DoS"), U.S. Department of Defense ("DoD"), U.S. Department of Interior ("DoI"), U.S. Department of Justice ("DoJ"), U.S. Department of Homeland Security ("DHS"), U.S. Department of Corrections ("DoC") and numerous foreign government agencies in over 100 countries.

In January 2022, the Company acquired Radar Leather Division S.r.l. ("Radar") for \$19.4 million, net of cash acquired. We recorded an allocation of the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values.

In May 2022, the Company acquired Cyalume Technologies, Inc, CT SAS Holdings, Inc. and Cyalume Technologies SAS (collectively "Cyalume") for \$36.2 million, net of cash acquired. We recorded a preliminary allocation of the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. These estimates are preliminary and subject to adjustments as we complete our valuation process.

The following table sets forth a summary of our financial highlights for the periods indicated:

(in thousands)	Year ended December 31,	
	2022	2021
Net sales	\$ 457,837	\$ 427,288
Net income	\$ 5,820	\$ 12,661
Adjusted EBITDA ⁽¹⁾	\$ 75,731	\$ 71,384

(1) Adjusted EBITDA is a non-GAAP financial measure. See "Non-GAAP Measures" below for our definition of, and additional information about, Adjusted EBITDA, and for a reconciliation to net income, the most directly comparable U.S. GAAP financial measure.

Net sales increased by \$30.5 million for the year ended December 31, 2022 as compared to December 31, 2021, primarily as a result of recent acquisitions and agency demand for hard goods through our Distribution segment.

Net income decreased by \$6.8 million for the year ended December 31, 2022 as compared to the year ended December 31, 2021, primarily as a result of an increase in stock-based compensation expense, which was partially offset by an increase in net sales, lower interest expense and the loss on extinguishment of debt related to the August 2021 debt refinance.

Initial Public Offering

On November 3, 2021, the Company completed its initial public offering (“IPO”) in which the Company issued and sold 6,900,000 shares of common stock, which included 900,000 shares that were offered and sold pursuant to the full exercise of the underwriters’ over-allotment option, at a public offering price of \$13.00 per share. The Company’s net proceeds from the sale of shares in the IPO were \$78.6 million after underwriter discounts and commissions, fees and expenses of \$11.1 million, of which \$2.3 million was paid to Kanders & Company, Inc., a company controlled by Warren B. Kanders, our Chief Executive Officer.

Secondary Offering

On June 9, 2022, the Company completed a secondary offering in which the Company issued and sold 2,250,000 shares of common stock at a price of \$23.50 per share. The Company’s net proceeds from the sale of shares were \$47.0 million after underwriter discounts and commissions, fees and expenses of \$2.7 million, of which \$2.0 million was paid to Kanders & Company, Inc., a company controlled by Warren B. Kanders, our Chief Executive Officer.

On July 14, 2022, the underwriters exercised a portion of their over-allotment option and purchased an additional 300,000 shares of common stock at a price of \$23.50 per share, resulting in net proceeds to the Company of \$6.4 million after underwriter discounts and commissions, fees and expenses of \$0.7 million.

COVID-19

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the U.S., and European governments in March 2020, with governments world-wide implementing safety measures restricting travel and requiring citizen lockdowns and self-confinements for quarantining purposes. During the years ended December 31, 2020, 2021, and 2022, this had negatively affected the U.S. and global economies, disrupted global supply chains, and resulted in significant transport restrictions and disruption of global financial markets.

An outbreak of disease or similar public health threat, such as the COVID-19 pandemic, could have, and in the case of the COVID-19 pandemic has had and may continue to have, a significant impact on the global supply chain, with restrictions and limitations on related activities causing disruption and delay, along with increased raw material, storage, and shipping costs. Any of these disruptions and delays may strain domestic and international supply chains, which could negatively affect the flow or availability of certain critical raw materials and finished good products that the Company relies upon. Furthermore, the foregoing impacts may negatively affect our logistical operations, including our fulfillment and shipping functions, which could result in periodic delays in the delivery of our products.

We expect that an outbreak of disease or similar public health threat, such as the COVID-19 pandemic, could have, and in the case of the COVID-19 pandemic may continue to have, an impact on the Company’s sales and profitability in future periods. The duration of these trends and the magnitude of such impacts cannot be precisely estimated at this time, as they are affected by a number of factors (some of which are outside management’s control), including those presented in Item 1A. Risk Factors.

KEY PERFORMANCE METRICS

Orders backlog

We monitor our orders backlog, which we believe is a forward-looking indicator of potential sales. Our orders backlog for products includes all orders that have been received and are believed to be firm. Due to municipal government procurement rules, in certain cases orders included in backlog are subject to budget appropriation or other contract cancellation clauses. Consequently, our

orders backlog may differ from actual future sales. Orders backlog can be helpful to investors in evaluating the performance of our business and identify trends over time.

The following table presents our orders backlog as of the periods indicated:

(in thousands)	Year ended December 31,	
	2022	2021
Orders backlog	\$ 117,873	\$ 113,840

Orders comprising backlog as of a given balance sheet date are typically invoiced in subsequent periods. The majority of our products are generally processed and shipped within one to six weeks of an order being placed, though the fulfillment time for certain products, for example, explosive ordnance disposal equipment, may take three months or longer. Our orders backlog could experience volatility between periods, including as a result of customer order volumes and the speed of our order fulfillment, which in turn may be impacted by the nature of products ordered, the amount of inventory on hand and the necessary manufacturing lead time.

Orders backlog increased by \$4.0 million as of December 31, 2022 compared to December 31, 2021, primarily due to \$8.9 million from recent acquisitions, \$8.6 million due to large government and international orders for less lethal product and \$6.4 million from higher demand for armor products, offset partially by reductions of \$13.2 million from 2022 shipments of large international contracts for bomb suits, \$3.3 million driven by reductions in supplier past dues for ammunition and firearms through our Distribution segment and \$2.1 million from 2022 shipments of a large domestic duty gear order.

DESCRIPTION OF CERTAIN COMPONENTS OF FINANCIAL DATA

Net sales

We recognize revenue when a contract exists with a customer that specifies the goods and services to be provided at an agreed upon sales price and when the performance obligation is satisfied by transferring the goods or service to the customer. The performance obligation is considered satisfied when control transfers, which is generally determined when products are shipped or delivered to the customer but could be delayed until the receipt of customer acceptance, depending on the terms of the contract. At the time of revenue recognition we also provide for estimated sales returns and miscellaneous claims from customers as reductions to revenues. Charges for shipping and handling fees billed to customers are included in net sales. Taxes collected from customers and remitted to government authorities are reported on a net basis and are excluded from sales. See Note 1 “Significant Accounting Policies — Revenue Recognition” to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

We generate sales primarily through our four main sales channels: U.S. state and local agencies, international, U.S. federal agencies, and commercial.

Costs and Expenses

Cost of goods sold. Cost of goods sold includes raw material purchases, manufacturing-related labor costs, contracted labor, shipping, reimbursable research and development costs, allocated manufacturing overhead, facility costs, depreciation and amortization, and product warranty costs.

Selling, general and administrative. Selling, general and administrative (“SG&A”) expense includes personnel-related costs, professional services, marketing and advertising expense, research and development, depreciation and amortization, and impairment charges.

Restructuring and transaction costs. Restructuring costs consist primarily of termination benefits and relocation of employees, termination of operating leases and other contracts related to consolidating or closing facilities. Transaction costs consist of legal fees and consulting costs related to one-time transactions.

Related party expense. Related party expense primarily consists of rent expense related to distribution locations owned by related parties and any one-time transaction fees paid to related parties.

Other general income. Other general income consists primarily of gains from the disposition of a long-lived assets.

Interest expense. Interest expense consists primarily of interest on outstanding debt.

Loss on extinguishment of debt. Loss on extinguishment of debt consists primarily of recorded losses associated with debt restructuring.

Other expense, net. Other expense, net primarily consists of gains and losses from foreign currency transactions.

Provision for income taxes. A provision or benefit for income tax is calculated for each of the jurisdictions in which we operate. The provision or benefit for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The benefit or provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the book and tax bases of assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. See Note 16 “Income Taxes” in our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

RESULTS OF OPERATIONS

In order to reflect the way our chief operation decision maker reviews and assesses the performance of the business, Cadre has determined that it has two reportable segments — the Product segment and the Distribution segment. Segment information is consistent with how the chief operating decision maker, our chief executive officer, reviews the business, makes investing and resource allocation decisions and assesses operating performance.

The following table presents data from our results of operations for the years ended December 31, 2022 and 2021 (in thousands unless otherwise noted):

	<u>Year Ended December 31,</u>		<u>% Chg</u>
	<u>2022</u>	<u>2021</u>	
Net sales	\$ 457,837	\$ 427,288	7.1 %
Cost of goods sold	282,159	256,598	10.0 %
Gross profit	175,678	170,690	2.9 %
Operating expenses			
Selling, general and administrative	153,288	114,962	33.3 %
Restructuring and transaction costs	4,355	3,430	27.0 %
Related party expense	1,478	579	155.3 %
Other general income	(159)	—	(100.0)%
Total operating expenses	158,962	118,971	33.6 %
Operating income	16,716	51,719	(67.7)%
Other expense			
Interest expense	(6,206)	(16,425)	(62.2)%
Loss on extinguishment of debt	—	(15,155)	(100.0)%
Other expense, net	(1,137)	(947)	20.1 %
Total other expense, net	(7,343)	(32,527)	(77.4)%
Income before provision for income taxes	9,373	19,192	(51.2)%
Provision for income taxes	(3,553)	(6,531)	(45.6)%
Net income	\$ 5,820	\$ 12,661	(54.0)%

The following table presents segment data for the years ended December 31, 2022 and 2021 (in thousands unless otherwise noted):

	Year ended December 31, 2022			
	Product	Distribution	Reconciling Items ⁽¹⁾	Total
Net sales	\$ 385,423	\$ 97,106	\$ (24,692)	\$ 457,837
Cost of goods sold	230,245	76,633	(24,719)	282,159
Gross profit	\$ 155,178	\$ 20,473	\$ 27	\$ 175,678

	Year ended December 31, 2021			
	Product	Distribution	Reconciling Items ⁽¹⁾	Total
Net sales	\$ 362,189	\$ 90,043	\$ (24,944)	\$ 427,288
Cost of goods sold	213,881	67,649	(24,932)	256,598
Gross profit	\$ 148,308	\$ 22,394	\$ (12)	\$ 170,690

(1) Reconciling items consist primarily of intercompany eliminations and items not directly attributable to operating segments.

Comparison of Year Ended December 31, 2022 to Year Ended December 31, 2021

Net sales. Product segment net sales increased by \$23.2 million or 6.4%, from \$362.2 million to \$385.4 million for the year ended December 31, 2022 as compared to 2021, primarily due to increases of \$29.4 million from recent acquisitions and \$11.4 million from higher demand for armor products, partially offset by reductions of \$9.3 million from a large contractual armor order fulfilled in the prior year, \$4.9 million for crowd control product due to higher demand in the prior year, \$3.7 million from large international contractual orders for explosive ordnance disposals and \$2.3 million for gun cleaning lubricants (higher prior year sales in support of firearms demand). Distribution segment net sales increased by \$7.1 million or 7.8%, from \$90.0 million to \$97.1 million for the year ended December 31, 2022 as compared to 2021, primarily due to agency demand for hard goods. Reconciling items consisting primarily of intercompany eliminations were \$24.7 million and \$24.9 million for year ended December 31, 2022 and 2021, respectively.

Cost of goods sold. Product segment cost of goods sold increased by \$16.3 million, or 7.7%, from \$213.9 million to \$230.2 million for the year ended December 31, 2022 as compared to 2021 primarily due to increased volume and increasing costs to manufacture product (principally material and labor). Product segment gross profit as a percentage of net sales decreased by 69 basis points to 40.3% in 2022 from 40.9% in 2021 mainly driven by 110 basis points related to amortization of inventory step-up recorded as part of the recent acquisitions, partially offset by favorable pricing net of mix and inflation. Distribution segment cost of goods sold increased by \$9.0 million, or 13.3%, from \$67.6 million to \$76.6 million for the year ended December 31, 2022 as compared to 2021 primarily due to increased volume and costs to acquire products. Distribution segment gross profit as a percentage of net sales decreased 21.1% in 2022 from 24.9% in 2021 mainly driven by unfavorable channel mix with more volume going to agencies versus retail and e-commerce. Reconciling items consisting primarily of intercompany eliminations were \$24.7 million and \$24.9 million for year ended December 31, 2022 and 2021, respectively.

Selling, general and administrative. SG&A increased by \$38.3 million, or 33.3%, for the year ended December 31, 2022 as compared to 2021 primarily due to increased stock-based compensation expense of \$31.9 million in the current year and \$6.9 million as a result of acquisitions.

Restructuring and transaction costs. Restructuring and transaction costs increased by \$0.9 million, for the year ended December 31, 2022 as compared to 2021, which primarily consisted of expenses related to the Company's various acquisition efforts and various initiatives implemented during the current quarter.

Related party expense. Related party expense increased by \$0.9 million for the year ended December 31, 2022 as compared to 2021, primarily due to a \$1.0 million transaction fee paid to Kandors & Company, Inc., a company controlled by our Chief Executive Officer, in connection with the acquisition of Cyalume. We also recorded rent expense relating to distribution warehouses and retail stores that we lease from related parties.

Other general income. Gains in other general income increased by \$0.2 million for the year ended December 31, 2022 as compared to 2021 due to a gain from the sale of our Daventry, UK facility in the current year.

Interest expense. Interest expense decreased by \$10.2 million, or 62.2%, for the year ended December 31, 2022 as compared to 2021 as a result of our prior year debt refinancing and debt repayments on our outstanding debt.

Loss on extinguishment of debt. Loss on extinguishment of debt decreased by \$15.2 million due to the refinancing of our long-term debt in August 2021.

Other expense, net. Other expense, net increased by \$0.2 million, for the year ended December 31, 2022 as compared to 2021 primarily due to losses on foreign currency transactions.

Provision for income taxes. Income tax provision was \$3.5 million for the year ended December 31, 2022 compared to \$6.5 million for the year ended December 31, 2021. The effective tax rate was 37.9% for the year ended December 31, 2022 and was higher than the statutory rate due to state taxes, executive compensation and the tax impact of our foreign earnings, partially offset by research and development tax credits. For the year ended December 31, 2021, the effective tax rate was 34.0% and was higher than the statutory rate primarily due to state taxes and executive compensation, partially offset by research and development tax credits.

NON-GAAP MEASURES

This Annual Report on Form 10-K includes EBITDA, Adjusted EBITDA and Adjusted EBITDA Conversion Rate, which are non-GAAP measures that we use to supplement our results presented in accordance with U.S. GAAP. EBITDA is defined as net income before depreciation and amortization expense, interest expense and provision for income taxes. Adjusted EBITDA represents EBITDA that excludes restructuring and transaction costs, other general income, loss on extinguishment of debt, other expense, net, stock-based compensation expense, stock-based compensation payroll tax expense, long term incentive plan (“LTIP”) bonus, and amortization of inventory step-up as these items do not represent our core operating performance. We also present Adjusted EBITDA Conversion Rate, which we define as Adjusted EBITDA less capital expenditures divided by Adjusted EBITDA. We use Adjusted EBITDA Conversion Rate as a measurement of the cash generation capacity of our underlying operations, exclusive of impacts relating to our capital structure.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Conversion Rate are performance measures that we believe are useful to investors and analysts because they illustrate the underlying financial and business trends relating to our core, recurring results of operations and enhance comparability between periods. Adjusted EBITDA is identical to the financial metric used under our existing credit facilities to measure our covenant compliance and is also considered by our board of directors and management as an important factor in determining performance-based compensation. Adjusted EBITDA Conversion Rate is a liquidity measure that we believe provides investors and analysts with important information about our core, recurring cash generation trends, which are an indication of our ability to make acquisitions, incur additional debt or return capital to investors, after making the capital investments required to support our business operations.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Conversion Rate are not recognized measures under U.S. GAAP and are not intended to be a substitute for any U.S. GAAP financial measure and, as calculated, may not be comparable to other similarly-titled measures of performance of other companies. Investors should exercise caution in comparing our non-GAAP measures to any similarly titled measures used by other companies. These non-GAAP measures exclude certain items required by U.S. GAAP and should not be considered as alternatives to information reported in accordance with U.S. GAAP.

The table below presents our EBITDA, Adjusted EBITDA and Adjusted EBITDA Conversion Rate reconciled to the most comparable GAAP measure for the periods indicated:

<i>(in thousands)</i>	Year Ended December 31,	
	2022	2021
Net income	\$ 5,820	\$ 12,661
Add back:		
Depreciation and amortization	15,651	13,718
Interest expense	6,206	16,425
Provision for income taxes	3,553	6,531
EBITDA	\$ 31,230	\$ 49,335
Add back:		
Restructuring and transaction costs ⁽¹⁾	5,355	3,430
Other general income ⁽²⁾	(159)	—
Loss on extinguishment of debt ⁽³⁾	—	15,155
Other expense, net ⁽⁴⁾	1,137	947
Stock-based compensation expense ⁽⁵⁾	32,239	355
Stock-based compensation payroll tax expense ⁽⁶⁾	305	—
LTIP bonus ⁽⁷⁾	1,369	2,162
Amortization of inventory step-up ⁽⁸⁾	4,255	—
Adjusted EBITDA	\$ 75,731	\$ 71,384
Less: Capital expenditures	(4,666)	(3,029)
Adjusted EBITDA less capital expenditures	\$ 71,065	\$ 68,355
Adjusted EBITDA conversion rate	94 %	96 %

- (1) Reflects the “Restructuring and transaction costs” line item on our consolidated statement of operations, which primarily includes transaction costs composed of legal and consulting fees, and \$1.0 million paid to Kanders & Company, Inc., a company controlled by our Chief Executive Officer, for services related to the acquisition of Cyalume, which is included in related party expense in the Company’s consolidated statements of operations and comprehensive income.
- (2) Reflects the “Other general income” line item on our consolidated statement of operations and includes a gain from a long-lived asset sale.
- (3) Reflects losses incurred in connection with the August 2021 debt refinancing.
- (4) Reflects the “Other expense, net” line item on our consolidated statement of operations and primarily includes losses on foreign currency transactions.
- (5) Reflects compensation expense related to equity and liability classified stock-based compensation plans.
- (6) Reflects payroll taxes associated with vested stock-based compensation awards.
- (7) Reflects the cost of a cash-based long-term incentive plan awarded to employees that vests over three years.
- (8) Reflects amortization expense related to the step-up inventory adjustment recorded as part of the recent acquisitions

Adjusted EBITDA increased \$4.3 million for the year ended December 31, 2022 as compared to 2021, primarily due to the increase in net sales, partially offset by increases in public company costs and marketing spend.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to our ability to generate sufficient cash flows to meet the cash requirements of our business operations, including working capital needs, capital expenditures, service debt, acquisitions and other commitments. Our principal sources of liquidity have been cash provided by operating activities, cash on hand and amounts available under our revolving credit facility.

For the year ended December 31, 2022, net cash provided by operating activities was \$46.4 million and as of December 31, 2022, cash and cash equivalents were \$45.3 million. We believe that our cash flows from operations and cash on hand, and available borrowing capacity under Debt (as described below) will be adequate to meet our liquidity requirements for at least the 12 months following the date

of this Annual Report on Form 10-K. Our future capital requirements will depend on several factors, including future acquisitions and investments in our manufacturing facilities and equipment. We could be required, or could elect, to seek additional funding through public or private equity or debt financings; however, additional funds may not be available on terms acceptable to us, if at all.

Debt

As of December 31, 2022 and December 31, 2021, we had \$149.7 million and \$159.7 million in outstanding debt, net of debt discounts and debt issuance costs, respectively, primarily related to the term loan facilities.

New Credit Agreement

On August 20, 2021 (the “Closing Date”), the Company refinanced its existing credit facilities and entered into a new credit agreement whereby Safariland, LLC, as borrower (the “Borrower”), the Company and certain domestic subsidiaries of the Borrower, as guarantors (the “Guarantors”), closed on and received funding under a credit agreement (initially entered into on July 23, 2021), pursuant to a First Amendment to Credit Agreement (as amended by the Second Amendment to Credit Agreement, dated as of December 14, 2022, collectively, the “New Credit Agreement”) with PNC Bank, National Association (“PNC”), as administrative agent, and the several lenders from time to time party thereto (together with PNC, the “Lenders”) pursuant to which the Borrower (i) borrowed \$200.0 million under a term loan (the “Term Loan”), and (ii) may borrow up to \$100.0 million under a revolving credit facility (including up to \$15.0 million for letters of credit and up to \$10.0 million for swing line loans) (the “Revolving Loan”). Each of the Term Loan and the Revolving Loan mature on July 23, 2026. Commencing December 31, 2021, the New Term Loan requires scheduled quarterly payments in amounts equal to 1.25% per quarter of the original aggregate principal amount of the Term Loan, with the balance due at maturity. The New Credit Agreement is guaranteed, jointly and severally, by the Guarantors and, subject to certain exceptions, secured by a first-priority security interest in substantially all of the assets of the Borrower and the Guarantors pursuant to a Security and Pledge Agreement and a Guaranty and Suretyship Agreement, each dated as of the Closing Date.

There were no amounts outstanding under the Revolving Loan as of December 31, 2022 and 2021. As of December 31, 2022, there were \$2.4 million in outstanding letters of credit, and \$97.6 million of availability.

The Borrower may elect to have the Revolving Loan and Term Loan under the New Credit Agreement bear interest at a base rate or a LIBOR rate, in each case, plus an applicable margin. The applicable margin for these borrowings will range from 0.50% to 1.50% per annum, in the case of base rate borrowings, and 1.50% to 2.50% per annum, in the case of LIBOR borrowings, in each case based upon the level of the Company’s consolidated total net leverage ratio. The New Credit Agreement also requires the Borrower to pay a commitment fee on the unused portion of the loan commitments. Such commitment fee will range between 0.175% and 0.25% per annum, and is also based upon the level of the Company’s consolidated total net leverage ratio.

The New Credit Agreement also contains customary representations and warranties, and affirmative and negative covenants, including limitations on additional indebtedness, dividends, and other distributions, entry into new lines of business, use of loan proceeds, capital expenditures, restricted payments, restrictions on liens on the assets of the Borrowers or any Guarantor, transactions with affiliates, amendments to organizational documents, accounting changes, sale and leaseback transactions, dispositions, and mandatory prepayments in connection with certain liquidity events. The New Credit Agreement contains certain restrictive debt covenants, which require us to: (i) maintain a minimum fixed charge coverage ratio of 1.25 to 1.00, starting with the quarter ended December 31, 2021, which is to be determined for each quarter end on a trailing four quarter basis and (ii) maintain a quarterly maximum consolidated total net leverage ratio of 3.75 to 1.00 from the quarter ended December 31, 2021 until the quarter ended September 30, 2022, and thereafter 3.50 to 1.00, which is in each case to be determined on a trailing four quarter basis; provided that under certain circumstances and subject to certain limitations, in the event of a material acquisition, we may temporarily increase the consolidated total net leverage ratio by up to 0.50 to 1.00 for four fiscal quarters following such acquisition. The New Credit Agreement contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, failure to make payment on, or defaults with respect to, certain other material indebtedness, bankruptcy and insolvency events, material judgments and change of control provisions. Upon the occurrence of an event of default, and after the expiration of any applicable grace period, payment of any outstanding loans under the New Credit Agreement may be accelerated and the Lenders could foreclose on their security interests in the assets of the Borrowers and the Guarantors. As of March 10, 2023, there were no amounts outstanding under the Revolving Loan.

The foregoing description of the New Credit Agreement does not purport to be complete and is qualified in its entirety by reference to exhibits 10.15, 10.16 and 10.17, respectively, to this Annual Report on Form 10-K.

Canadian Credit Facility

On October 14, 2021, Med-Eng Holdings ULC and Pacific Safety Products Inc., the Company's Canadian subsidiaries, as borrowers (the "Canadian Borrowers"), and Safariland, LLC, as guarantor (the "Canadian Guarantor"), closed on a line of credit pursuant to a Loan Agreement (the "Canadian Loan Agreement") and a Revolving Line of Credit Note (the "Note") with PNC Bank Canada Branch ("PNC Canada"), as lender pursuant to which the Canadian Borrowers may borrow up to CDN\$10.0 million under a revolving line of credit (including up to \$3.0 million for letters of credit) (the "Revolving Canadian Loan"). The Revolving Canadian Loan matures on July 23, 2026. The Canadian Loan Agreement is guaranteed by the Canadian Guarantor pursuant to a Guaranty and Suretyship Agreement.

The Canadian Borrowers may elect to have borrowings either in United States dollars or Canadian dollars under the Canadian Loan Agreement, which will bear interest at a base rate or a LIBOR rate, in each case, plus an applicable margin, in the case of borrowings in United States dollars, or at a Canadian Prime Rate (as announced from time to time by PNC Canada) or a Canadian deposit offered rate ("CDOR") as determined from time to time by PNC Canada in accordance with the Canadian Loan Agreement. The applicable margin for these borrowings will range from 0.50% to 1.50% per annum, in the case of base rate borrowings and Canadian Prime Rate borrowings, and 1.50% to 2.50% per annum, in the case of LIBOR borrowings and CDOR borrowings. The Canadian Loan Agreement also requires the Canadian Borrowers to pay (i) an unused line fee on the unused portion of the loan commitments in an amount ranging between 0.175% and 0.25% per annum, based upon the level of the Company's consolidated total net leverage ratio, and (ii) an upfront fee equal to 0.25% of the principal amount of the Note.

There were no amounts outstanding under the Revolving Canadian Loan as of December 31, 2022.

The Canadian Loan Agreement also contains customary representations and warranties, and affirmative and negative covenants, including, among others, limitations on additional indebtedness, entry into new lines of business, entry into guarantee agreements, making of any loans or advances to, or investments in, any other person, restrictions on liens on the assets of the Canadian Borrowers and mergers, transfers of assets and acquisitions. The Canadian Loan Agreement and Note also contain customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, failure to make payment on, or defaults with respect to, certain other material indebtedness, bankruptcy and insolvency events, material judgments and change of control provisions. Upon the occurrence of an event of default, and after the expiration of any applicable grace period, payment of any outstanding loans under the Canadian Loan Agreement may be accelerated. As of March 10, 2023, there were no amounts outstanding under the Revolving Canadian Loan.

The foregoing description of the Canadian Loan Agreement does not purport to be complete and is qualified in its entirety by reference to the Canadian Loan Agreement, which is incorporated by reference as exhibit 10.18 to this Annual Report on Form 10-K.

Cash Flows

The following table presents a summary of our cash flows for the periods indicated:

(in thousands)	Year Ended December 31,	
	2022	2021
Net cash provided by operating activities	\$ 46,409	\$ 40,094
Net cash used in investing activities	(59,626)	(2,832)
Net cash provided by (used in) financing activities	24,463	(6,596)
Effects of foreign exchange rates on cash and cash equivalents	183	318
Change in cash and cash equivalents	11,429	30,984
Cash and cash equivalents, beginning of period	33,857	2,873
Cash and cash equivalents, end of period	\$ 45,286	\$ 33,857

Net cash provided by operating activities

During the year ended December 31, 2022, net cash provided by operating activities of \$46.4 million resulted primarily from net income of \$5.8 million, a \$31.9 million add back to net income for stock-based compensation, a \$15.7 million add back to net income for depreciation and amortization, a \$4.3 million add back to net income for amortization of inventory step-up and a \$12.6 million deduction to net income from changes in operating assets and liabilities. Changes in operating assets and liabilities were primarily driven by an increase in accounts receivable of \$11.5 million, an increase in prepaid expense and other assets of \$7.7 million and an increase in accounts payable and other liabilities of \$5.5 million.

During the year ended December 31, 2021, net cash provided by operating activities of \$40.1 million resulted primarily from net income of \$12.7 million, a \$15.2 million add back to net income for loss on extinguishment of debt, a \$13.7 million add back to net income for depreciation and amortization, a \$3.2 million add back to net income for amortization of original debt issuance discount and debt issuance costs and a \$9.7 million deduction to net income from changes in operating assets and liabilities. Changes in operating assets and liabilities were driven by an increase in accounts receivable of \$4.6 million, an increase in inventories of \$3.2, an increase in prepaid expense and other assets of \$4.6 million and an increase in accounts payable and other liabilities of \$2.7 million.

Net cash used in investing activities

During the year ended December 31, 2022, we used \$59.6 million of cash in investing activities, primarily consisting of \$19.4 million for the acquisition of Radar, \$36.2 million for the acquisition of Cyalume and \$4.5 million for purchases of property and equipment.

During the year ended December 31, 2021, we used \$2.8 million of cash in investing activities relating to the purchase of property and equipment.

Net cash provided by (used in) financing activities

During the year ended December 31, 2022, net cash provided by financing activities of \$24.5 million resulted primarily from proceeds from the secondary offering of \$56.3 million, partially offset by principal payments on term loans of \$10.1 million, taxes paid in connection with employee stock transactions of \$6.3 million and dividends distributed of \$11.5 million.

During the year ended December 31, 2021, we used \$6.6 million of cash in financing activities, primarily consisting of proceeds from the revolving credit facility of \$258.0 million, proceeds from term loans of \$198.7 million, and proceeds from the initial public offering, net of underwriter discounts of \$83.4 million, offset by principal payments on the revolving credit facility of \$258.6 million, principal payments on term loans of \$266.0 million and dividends distributed of \$12.7 million.

Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2022 by period:

(in thousands)	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Lease obligations ⁽¹⁾	\$ 9,118	\$ 4,012	\$ 4,518	\$ 588	\$ —
Debt ⁽²⁾	149,076	10,000	20,256	118,820	—
Interest on debt ⁽³⁾	18,510	5,708	10,241	2,561	—
Total contractual obligations	\$ 176,704	\$ 19,720	\$ 35,015	\$ 121,969	\$ —

(1) Includes future minimum lease payments required under non-cancelable operating and capital leases.

(2) Includes scheduled cash principal payments on our debt, excluding interest, original issuance discount and debt issuance costs.

(3) Includes the effect of our interest rate swap and assumes (a) one-month LIBOR rate in effect as of December 31, 2022; (b) applicable margins remain constant; (c) only mandatory debt repayments are made; and (d) no refinancing occurs at debt maturity.

Off-Balance Sheet Arrangements

We do not engage in off-balance sheet financing arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Significant Judgements and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Preparation of the financial statements requires us to make judgments, estimates and assumptions that impact the reported amount of net sales and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. We consider an accounting judgment, estimate or assumption to be critical when the estimate or assumption is complex in nature or requires a high degree of judgment and when the use of different judgments, estimates and assumptions could have a material impact on our consolidated financial statements. While our significant accounting policies are described in more detail in Note 1

of our consolidated financial statements, we believe that the following accounting policies are those most critical to the judgments and estimates used in the preparation of our financial statements.

Goodwill

Goodwill is initially recorded at the fair value. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Goodwill is not subject to any amortization but is tested for impairment annually as of October 31st, and when events or circumstances indicate that the estimated fair value of a reporting unit may no longer exceed its carrying value. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recognized in an amount equal to the excess, limited to the total amount of goodwill allocated to the reporting unit.

In evaluating goodwill for impairment, qualitative factors are considered to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, through this qualitative assessment, the conclusion is made that it is more likely than not that a reporting unit's fair value is less than its carrying value, an impairment test is conducted. This quantitative test is performed by comparing the fair value of a reporting unit, determined by a weighted combination of the discounted cash flow method of the income approach and the market approach, to its carrying value. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. We had three reporting units as of October 31, 2022: Safariland, Med-Eng, and Distribution.

We determine the fair value of reporting units based on a combination of the income approach and market approach, weighted based on the circumstances, as management believes this is the most direct approach to incorporate the specific economic attributes and risk profiles of our reporting units into our valuation model. Under the income approach, the discounted cash flow model determines fair value based on the present value of projected cash flows over a specific projection period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate that reflects our best estimate of the weighted average cost of capital of a market participant and is adjusted for appropriate risk factors. We perform sensitivity tests with respect to growth rates and discount rates used in the income approach. Under the market approach, valuation multiples are derived based on a selection of comparable companies and acquisition transactions and applied to projected operating data for each reporting unit to arrive at an indication of fair value.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This Item 7A is not required for Smaller Reporting Companies.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Cadre Holdings, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Cadre Holdings, Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2022 due to the adoption of Accounting Standards Update 2016-02, Leases, and several related amendments, as issued by the Financial Accounting Standards Board.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2014.

Jacksonville, Florida
March 15, 2023

CADRE HOLDINGS, INC.

Consolidated Balance Sheets
As of December 31, 2022 and 2021
(In thousands, except for share and per share amounts)

	December 31, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 45,286	\$ 33,857
Accounts receivable, net	64,557	48,344
Inventories	70,273	63,978
Prepaid expenses	10,091	10,353
Other current assets	6,811	3,171
Assets held for sale	—	278
Total current assets	197,018	159,981
Property and equipment, net	45,285	33,053
Operating lease assets	8,489	—
Deferred tax assets, net	2,255	7,059
Intangible assets, net	50,695	42,415
Goodwill	81,576	66,262
Other assets	6,634	3,026
Total assets	\$ 391,952	\$ 311,796
Liabilities, Mezzanine Equity and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 23,406	\$ 19,328
Accrued liabilities	38,720	40,736
Income tax payable	4,584	1,255
Liabilities held for sale	—	128
Current portion of long-term debt	12,211	13,174
Total current liabilities	78,921	74,621
Long-term debt	137,476	146,516
Long-term operating lease liabilities	4,965	—
Deferred tax liabilities	3,508	1,297
Other liabilities	1,192	722
Total liabilities	226,062	223,156
Commitments and contingencies (Note 15)		
Mezzanine equity		
Preferred stock (\$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding as of December 31, 2022 and December 31, 2021)	—	—
Shareholders' equity		
Common stock (\$0.0001 par value, 190,000,000 shares authorized, 37,332,271 and 34,383,350 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively)	4	3
Additional paid-in capital	206,540	127,606
Accumulated other comprehensive income (loss)	2,087	(1,917)
Accumulated deficit	(42,741)	(37,052)
Total shareholders' equity	165,890	88,640
Total liabilities, mezzanine equity and shareholders' equity	\$ 391,952	\$ 311,796

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

CADRE HOLDINGS, INC.

Consolidated Statements of Operations and Comprehensive Income
For the Years Ended December 31, 2022 and 2021
(In thousands, except for share and per share amounts)

	2022	2021
Net sales	\$ 457,837	\$ 427,288
Cost of goods sold	282,159	256,598
Gross profit	175,678	170,690
Operating expenses		
Selling, general and administrative	153,288	114,962
Restructuring and transaction costs	4,355	3,430
Related party expense	1,478	579
Other general income	(159)	—
Total operating expenses	158,962	118,971
Operating income	16,716	51,719
Other expense		
Interest expense	(6,206)	(16,425)
Loss on extinguishment of debt	—	(15,155)
Other expense, net	(1,137)	(947)
Total other expense, net	(7,343)	(32,527)
Income before provision for income taxes	9,373	19,192
Provision for income taxes	(3,553)	(6,531)
Net income	\$ 5,820	\$ 12,661
Net income per share:		
Basic	\$ 0.16	\$ 0.44
Diluted	\$ 0.16	\$ 0.44
Weighted average shares outstanding:		
Basic	36,109,844	28,598,692
Diluted	36,122,374	28,598,692
Net income	\$ 5,820	\$ 12,661
Other comprehensive income:		
Unrealized holding gains, net of tax ⁽¹⁾	6,444	767
Reclassification adjustments for gains included in net loss, net of tax ⁽²⁾	(618)	146
Total unrealized gains on interest rate swaps, net of tax	5,826	913
Foreign currency translation adjustments, net of tax ⁽³⁾	(1,822)	30
Other comprehensive income	4,004	943
Comprehensive income, net of tax	\$ 9,824	\$ 13,604

(1) Net of income tax expense of \$2,148 and \$256 for the years ended December 31, 2022 and 2021, respectively.

(2) Amounts reclassified to net income relate to gains on interest rate swaps and are included in Interest expense above. Amount is net of income tax benefit of \$206 and income tax expense of \$49 for the years ended December 31, 2022 and 2021, respectively.

(3) Net of income tax expense of \$587 and \$24 for the years ended December 31, 2022 and 2021, respectively.

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

CADRE HOLDINGS, INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(In thousands)

	Year Ended December 31,	
	2022	2021
Cash Flows From Operating Activities:		
Net income	\$ 5,820	\$ 12,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,651	13,718
Amortization of original issue discount and debt issue costs	740	3,193
Amortization of inventory step-up	4,255	—
Loss on extinguishment of debt	—	15,155
Deferred income taxes	(1,087)	4,772
Stock-based compensation	31,858	355
Gain on sale of fixed assets	(170)	—
Provision for (recoveries from) losses on accounts receivable	417	(188)
Foreign exchange loss	1,517	102
Changes in operating assets and liabilities, net of impact of acquisitions:		
Accounts receivable	(11,536)	(4,641)
Inventories	1,162	(3,189)
Prepaid expenses and other assets	(7,711)	(4,564)
Accounts payable and other liabilities	5,493	2,720
Net cash provided by operating activities	<u>46,409</u>	<u>40,094</u>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(4,494)	(2,832)
Proceeds from disposition of property and equipment	411	—
Business acquisitions, net of cash acquired	(55,543)	—
Net cash used in investing activities	<u>(59,626)</u>	<u>(2,832)</u>
Cash Flows From Financing Activities:		
Proceeds from revolving credit facilities	43,000	257,980
Principal payments on revolving credit facilities	(43,000)	(258,612)
Proceeds from term loans	—	198,716
Principal payments on term loans	(10,116)	(266,000)
Proceeds from insurance premium financing	3,989	5,010
Principal payments on insurance premium financing	(4,952)	(3,061)
Payment of capital leases	(25)	(43)
Payments for debt issuance costs	—	(2,198)
Payments on extinguishment of debt	—	(4,217)
Taxes paid in connection with employee stock transactions	(6,300)	—
Proceeds from initial public offering, net of underwriter discounts	—	83,421
Proceeds from secondary offering, net of underwriter discounts	56,329	—
Deferred offering costs	(2,953)	(4,841)
Dividends distributed	(11,509)	(12,751)
Net cash provided by (used in) financing activities	<u>24,463</u>	<u>(6,596)</u>
Effect of foreign exchange rates on cash and cash equivalents	183	318
Change in cash and cash equivalents	11,429	30,984
Cash and cash equivalents, beginning of period	33,857	2,873
Cash and cash equivalents, end of period	<u>\$ 45,286</u>	<u>\$ 33,857</u>
Supplemental Disclosure of Cash Flows Information:		
Cash paid for income taxes, net	\$ 1,395	\$ 1,158
Cash paid for interest	\$ 6,109	\$ 13,336
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Accruals and accounts payable for capital expenditures	\$ 172	\$ 197

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

CADRE HOLDINGS, INC.

Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2022 and 2021
(In thousands, except for share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other	Accumulated Deficit	Shareholders' Equity
	Shares	Amount		Income (Loss)		
Balance, December 31, 2020	27,483,350	\$ 3	\$ 48,670	\$ (2,860)	\$ (36,962)	\$ 8,851
Net income	—	—	—	—	12,661	12,661
Issuance of common stock in initial public offering, net of underwriter discounts and issuance costs	6,900,000	—	78,581	—	—	78,581
Dividends declared	—	—	—	—	(12,751)	(12,751)
Stock-based compensation	—	—	355	—	—	355
Foreign currency translation adjustments	—	—	—	30	—	30
Change in fair value of derivative instruments	—	—	—	913	—	913
Balance, December 31, 2021	34,383,350	\$ 3	\$ 127,606	\$ (1,917)	\$ (37,052)	\$ 88,640
Net income	—	—	—	—	5,820	5,820
Issuance of common stock in secondary offering, net of underwriter discounts and issuance costs	2,550,000	1	53,376	—	—	53,377
Dividends declared	—	—	—	—	(11,509)	(11,509)
Stock-based compensation	—	—	30,706	—	—	30,706
Common stock issued under employee compensation plans	580,990	—	1,152	—	—	1,152
Common stock withheld related to net share settlement of stock-based compensation	(182,069)	—	(6,300)	—	—	(6,300)
Foreign currency translation adjustments	—	—	—	(1,822)	—	(1,822)
Change in fair value of derivative instruments	—	—	—	5,826	—	5,826
Balance, December 31, 2022	<u>37,332,271</u>	<u>\$ 4</u>	<u>\$ 206,540</u>	<u>\$ 2,087</u>	<u>\$ (42,741)</u>	<u>\$ 165,890</u>

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

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation

Cadre Holdings, Inc., D/B/A The Safariland Group (the “Company”, “Cadre”, “we”, “us”, and “our”), a Delaware corporation, began operations on April 12, 2012. The Company, headquartered in Jacksonville, Florida, is a global leader in manufacturing and distributing safety and survivability products and other related products for the law enforcement, first responder and military markets. The business operates through 16 manufacturing plants within the U.S., Mexico, Canada, the United Kingdom, Italy, France and Lithuania, and sells its products worldwide through its direct sales force, distribution channel and distribution partners, online stores, and third-party resellers.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP” or “U.S. GAAP”) and include the accounts of Cadre Holdings, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Stock Split

In July 2021, the Company effected a 50-for-1 stock split of its common stock and preferred stock. All share and per share information has been retroactively adjusted to reflect the stock split for all periods presented.

Emerging Growth Company

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). As such, we are eligible for exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies, including, but not limited to, presenting only two years of audited financial statements, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation, and an exemption from the requirements to obtain a non-binding advisory vote on executive compensation or golden parachute arrangements.

In addition, an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this provision of the JOBS Act. As a result, we will not be subject to new or revised accounting standards at the same time as other public companies that are not emerging growth companies. Therefore, our consolidated financial statements may not be comparable to those of companies that comply with new or revised accounting pronouncements as of public company effective dates.

Use of Estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Fair Value Measurements

The Company follows the guidance of Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

measurements. This guidance also establishes the following three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability on the measurement date:

Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that reflect assumptions about what market participants would use in pricing assets or liabilities based on the best information available.

The Company's financial instruments consist principally of cash, accounts receivable, prepaid expenses, other current assets, accounts payable, accrued liabilities, income tax payable and debt. The carrying amounts of certain of these financial instruments, including cash, accounts receivable, prepaid expenses, other current assets, accounts payable, accrued liabilities and income tax payable approximate their current fair value due to the relatively short-term nature of these accounts.

Cash and Cash Equivalents

Included in cash and cash equivalents are deposits with banks, cash on hand in stores, and amounts due from credit card transactions. We have no restrictions on our cash and cash equivalents.

Accounts Receivable

Trade accounts receivable consists of amounts owed to the Company and is stated net of allowances. The Company's outstanding accounts receivable balances are exposed to credit risk and valuation allowances are established for estimated losses resulting from non-collection of outstanding amounts due from customers.

The Company establishes a reserve for estimated doubtful accounts based on the aging of its receivable balances and collection history. In addition, specific reserves are established for customer accounts as known collection problems occur due to insolvency, disputes, or other collection issues. The amounts of these specific reserves are estimated by management based on the customer's financial position, the age of the customer's receivables and the reasons for any disputes. The allowance for doubtful accounts is reduced by any write-off of uncollectible customer accounts.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out ("FIFO") or average cost methods, or net realizable value. Elements of cost in the Company's manufactured inventories generally include raw materials, direct labor, indirect labor, manufacturing overhead and freight-in. The Company periodically reviews its inventories considering sales forecasts and historical experience to identify excess, close-out, or slow-moving items and makes provisions as necessary to properly reflect inventory value at the lower of cost or net realizable value.

Assets Held for Sale

An asset is considered to be held for sale when all of the following criteria are met: (i) management commits to a plan to sell the asset; (ii) it is unlikely that the disposal plan will be significantly modified or discontinued; (iii) the asset is available for immediate sale in its present condition; (iv) actions required to complete the sale of the asset have been initiated; (v) sale of the asset is probable and the completed sale is expected to occur within one year; and (vi) the asset is actively being marketed for sale at a price that is reasonable given its current market value.

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

A long-lived asset classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. A long-lived asset is not depreciated or amortized while it is classified as held for sale.

Property and Equipment

Property and equipment, including those acquired under capital lease agreements, is stated at cost less accumulated depreciation and amortization, except for assets acquired using acquisition accounting, which are initially recorded at fair value. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 39 years
Furniture and fixtures	2 to 10 years
Computer hardware and software	3 to 5 years
Machinery and equipment	3 to 8 years

Leasehold improvements are amortized over the lesser of the estimated useful life of the improvement or the life of the lease. Major replacements, which extend the useful lives of property and equipment, are capitalized and depreciated over the remaining useful life of the asset. Normal repair and maintenance items are expensed as incurred.

The recoverability of the carrying amount of property and equipment is assessed when events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. If it is determined that the carrying amount of an asset or asset group is not recoverable based upon expected undiscounted future cash flows of the asset or asset group, an impairment loss equal to the excess of the carrying amount over the estimated fair value of the asset or asset group is recorded.

Leases

Lease assets and lease liabilities are recognized at the commencement of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using our incremental borrowing rate. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised.

Variable lease payments are generally expensed as incurred and include certain non-lease components, such as common area maintenance and other services provided by the lessor, and other charges such as utilities, insurance and property taxes included in the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the expense for these short-term leases and for operating leases is recognized on a straight-line basis over the lease term. Non-lease components are excluded from the right-of-use ("ROU") asset and lease liability present value computations. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Goodwill and Intangible Assets

The Company classifies intangible assets into three categories: i) intangible assets with definite lives subject to amortization, ii) intangible assets with indefinite lives not subject to amortization and iii) goodwill. The Company determines the useful lives of its identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors the Company considers when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, the Company's long-term strategy for using the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized on a straight-line basis over their useful lives.

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

The Company tests goodwill and intangible assets determined to have indefinite useful lives for impairment annually, or more frequently if events or circumstances indicate that assets might be impaired. The Company performs these annual impairment tests as of October 31st each year. Goodwill is evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. As of October 31, 2022 and 2021, the Company had three reporting units: Safariland, Med-Eng, and Distribution.

In evaluating goodwill for impairment, qualitative factors are considered to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Some of these qualitative factors may include macroeconomic conditions, industry and market considerations, a change in financial performance, or entity-specific events. If, through this qualitative assessment, the conclusion is made that it is more likely than not that a reporting unit's fair value is less than its carrying amount, the Company performs a two-step goodwill impairment test. The first step involves a comparison of the fair value of a reporting unit to its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process is performed, which compares the implied value of the reporting unit goodwill with the carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The Company determines the fair value of reporting units based on a combination of the income approach and market approach, weighted based on the circumstances. Under the income approach, the discounted cash flow model determines fair value based on the present value of projected cash flows over a specific projection period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate that reflects the Company's best estimate of the weighted average cost of capital of a market participant and is adjusted for appropriate risk factors. The Company performs sensitivity tests with respect to growth rates and discount rates used in the income approach. Under the market approach, valuation multiples are derived based on a selection of comparable companies and acquisition transactions and applied to projected operating data for each reporting unit to arrive at an indication of fair value.

The Company performed the qualitative assessment of goodwill and determined it was more likely than not that the fair value of each of its reporting units would be greater than its carrying amount. Therefore, the Company determined it was not necessary to perform the quantitative goodwill impairment test.

For indefinite-lived intangible assets other than goodwill, the impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to that excess.

The Company tests definite-lived intangible assets for recoverability when changes in circumstances indicate the carrying value may not be recoverable. Events that trigger a test for recoverability include:

- material adverse changes in projected revenues and expenses;
- significant underperformance relative to historical and projected future operating results;
- significant negative industry or economic trends; and,
- a significant adverse change in the manner in which an asset group is used or in its physical condition.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that could materially impact future results of operations and financial position in the reporting period identified.

When a triggering event occurs, a test for recoverability is performed by comparing projected undiscounted future cash flows to the carrying value of the asset group. If the test for recoverability identifies a possible impairment, the asset group's fair value is

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

measured relying primarily on a discounted cash flow method. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amount of those assets is depreciated over their remaining useful life. We did not have any events or circumstances indicating impairment of our long-lived assets for the years presented.

Accounts Payable

Accounts payable represents amounts owed by us to third parties at the end of the period. Accounts payable includes \$188 and \$670 of book cash overdrafts in excess of cash balances in such accounts as of December 31, 2022 and 2021, respectively. We include the change in book cash overdrafts in operating cash flows in the consolidated statements of cash flows.

Revenue Recognition

The Company derives revenue primarily from the sale of physical products. The Company recognizes revenue when a contract exists with a customer that specifies the goods and services to be provided at an agreed upon sales price and when the performance obligation is satisfied by transferring the goods or service to the customer. The performance obligation is considered satisfied when control transfers, which is generally determined when products are shipped or delivered to the customer but could be delayed until the receipt of customer acceptance, depending on the terms of the contract. Sales are made on normal and customary short-term credit terms or upon delivery for point of sale transactions.

The Company enters into contractual arrangements primarily with customers in the form of individual customer orders which specify the goods, quantity, pricing, and associated order terms. The Company has some long-term contracts that may contain research and development performance obligations that are satisfied over time. The Company invoices the customer once the billing milestone is reached and collects under customary short-term credit terms. For long-term contracts, the Company recognizes revenue using the input method based on costs incurred, as this method is an appropriate measure of progress toward the complete satisfaction of the performance obligation. Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation will be revised in the near-term. For those performance obligations for which revenue is recognized using a cost-to-cost input method, changes in total estimated costs, and related progress towards complete satisfaction of the performance obligation, are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. When the current estimate of total costs for a performance obligation indicate a loss, a provision for the entire estimated loss on the unsatisfied performance obligation is made in the period in which the loss becomes evident.

At the time of revenue recognition, the Company also provides for estimated sales returns and miscellaneous claims from customers as reductions to revenues. The estimates are based on historical rates of product returns and claims. The Company accrues for such estimated returns and claims with an estimated accrual and associated reduction of revenue. Additionally, the Company records inventory that it expects to be returned as part of inventories, with a corresponding reduction to cost of goods sold.

Charges for shipping and handling fees billed to customers are included in net sales and the corresponding shipping and handling expenses are included in cost of goods sold in the accompanying consolidated statements of operations and comprehensive income. We consider our costs related to shipping and handling after control over a product has transferred to a customer to be a cost of fulfilling the promise to transfer the product to the customer.

Sales commissions paid to employees as compensation are expensed as incurred for contracts with service periods less than a year. For contracts with service periods greater than a year, these costs are capitalized and amortized over the life of the contract. These costs are recorded in selling, general and administrative expenses in the Company's consolidated statements of operations and comprehensive income.

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

Product Warranty

Some of the Company's manufactured products carry limited warranty provisions for defects in quality and workmanship. A warranty reserve is established at the time of sale to cover estimated costs based on the Company's history of warranty repairs and replacements and is recorded in cost of goods sold in the Company's consolidated statements of operations and comprehensive income.

The following table sets forth the changes in the Company's accrued warranties, which is recorded in accrued liabilities in the consolidated balance sheets:

	Year ended December 31,	
	2022	2021
Beginning accrued warranty expense	\$ 1,256	\$ 1,133
Current period claims	(278)	(399)
Provision for current period sales	256	522
Ending accrued warranty expense	<u>\$ 1,234</u>	<u>\$ 1,256</u>

Cost of Goods Sold

Cost of goods sold includes raw material purchases, manufacturing-related labor costs, contracted labor, shipping costs, reimbursable research and development costs, allocated manufacturing overhead, facility costs, depreciation and amortization, and product warranty costs.

Selling, General & Administrative Expenses

Selling, general and administrative expense includes personnel-related costs, including stock-based compensation, professional services, marketing and advertising expense, research and development, depreciation and amortization, and impairment charges.

Advertising Expenses

Advertising costs are expensed in the period incurred. Advertising expenses primarily consist of marketing, promotions, catalog and trade show expenses and were \$4,711 and \$3,120 during the years ended December 31, 2022 and 2021, respectively. Advertising expenses are included in selling, general and administrative expenses in the Company's consolidated statements of operations and comprehensive income.

Research and Development

Research and development expenses are expensed as incurred and included within selling, general and administrative expenses in the Company's consolidated statements of operations and comprehensive income. Total research and development costs were \$7,086 and \$6,460 for the years ended December 31, 2022 and 2021, respectively.

In addition, the Company incurs research and development expenses related to reimbursable development contracts. Contractual research and development expenses are included in cost of goods sold in the Company's consolidated statements of operations and comprehensive income and were \$1,639 and \$5,895 for the years ended December 31, 2022 and 2021, respectively.

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

Debt Issuance Costs

The Company capitalizes costs related to the issuance of debt under the provisions of ASC Subtopic 835-30, *Interest — Imputation of Interest*. Debt issuance costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability and subsequently amortized on a straight-line method which approximates the effective interest method over the life of the related loan. Debt issuance costs related to line-of-credit are presented in the consolidated balance sheets as an asset and subsequently amortized ratably over the term of the respective arrangement. Amortization of debt issuance costs is included as a component of interest expense in the Company's consolidated statements of operations and comprehensive income.

Stock-Based Compensation

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

Derivatives

The Company mitigates the impact of changes in interest rates with interest rate swaps that are accounted for as designated hedges pursuant to ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as designated cash flow hedge that offsets certain exposures. Certain criteria must be satisfied in order for derivative financial instruments to be classified and accounted for as a cash flow hedge. Changes in the fair value of derivatives that are not elected for hedge accounting treatment are recorded immediately into earnings.

The Company would discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated, or exercised, (iii) if it becomes probable that the forecasted transaction being hedged by the derivative will not occur, (iv) if a hedged firm commitment no longer meets the definition of a firm commitment, or (v) if it is determined that designation of the derivative as a hedge instrument is no longer appropriate.

Restructuring Costs

Restructuring costs consist primarily of termination benefits and relocation of employees, termination of operating leases and other contracts related to consolidating or closing facilities. The Company applies the provisions of ASC Topic 420, *Exit or Disposal Cost Obligations* ("ASC 420") and ASC Topic 712, *Nonretirement Postemployment Benefits* ("ASC 712") in the recording of severance costs. Severance costs accounted for under ASC 420 are recognized when management with the proper level of authority commits to a restructuring plan and communicates those actions to employees and other applicable criteria. Severance costs accounted for under ASC 712 are recognized when it is probable that employees are entitled to benefits and the amount could be reasonably estimated. Other exit costs are accounted for under ASC 420 and are either deferred or expensed as incurred based on the nature of the expense.

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

Income Taxes

The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities and are classified as noncurrent in the consolidated balance sheets.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Changes in tax laws and rates could have a material impact on the deferred tax assets and liabilities recorded.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Significant estimates are used in the evaluation of the need for a valuation allowance including estimates regarding future taxable income. Changes to those estimates could impact management's conclusions regarding the need for valuation allowances on some or all of the deferred tax assets. The Company releases the income tax effects of deferred tax balances that have a valuation allowance from accumulated other comprehensive income (loss) once the reason the tax effects were established ceases to exist.

The Company is subject to income taxes in the United States and several foreign jurisdictions. In the United States, the Company files a consolidated income tax return with its domestic subsidiaries. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely than-not threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Further information regarding the Company's tax positions is included in Note 16, *Income Taxes*.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) represents all changes in equity of the Company that result from recognized transactions and other economic events during the period. Other comprehensive income (loss) refers to revenues, expenses, gains, and losses that under GAAP are included in comprehensive income but excluded from net income.

Foreign Currency

Translation

Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than U.S. Dollars are translated into U.S. Dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as the cumulative translation adjustment included in accumulated other comprehensive income (loss) in the consolidated balance sheets.

CADRE HOLDINGS, INC.

Notes to Consolidated Financial Statements (In thousands, except for share amounts)

Transaction

Transactions denominated in foreign currency are recorded at the exchange rate on the date of each transaction. Realized gains and losses on foreign currency transactions are included in other income, net in the consolidated statements of operations and comprehensive income, except on certain intercompany balances which the Company has determined are of a long-term investment nature, which are included in accumulated other comprehensive income (loss) in the consolidated balance sheets. Monetary assets and liabilities are remeasured at the balance sheet date at end-of-period exchange rates. Unrealized gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in other expense, net in the consolidated statements of operations and comprehensive income in the period in which they occur.

Net Income per Share

Basic income or loss per share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Diluted income or loss per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of potential common shares, determined using the treasury-stock method. The calculation of weighted average shares outstanding and net income per share are as follows:

	Year ended December 31,	
	2022	2021
Net income	\$ 5,820	\$ 12,661
Weighted average shares outstanding - basic	36,109,844	28,598,692
Effect of dilutive securities:		
Stock-based awards	12,530	—
Weighted average shares outstanding - diluted	36,122,374	28,598,692
Net income per share:		
Basic	\$ 0.16	\$ 0.44
Diluted	\$ 0.16	\$ 0.44

There were no dilutive instruments outstanding for the year ended December 31, 2021.

Risk and Uncertainties

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and accounts receivable. Risks associated with cash within the United States and foreign countries are mitigated by banking with federally insured, creditworthy institutions. As of December 31, 2022 and 2021, the Company had deposits of \$10,142 and \$7,593, respectively, at foreign financial institutions.

Accounts receivable are financial instruments that also expose the Company to concentration of credit risk. Such exposure is limited by the large number of customers comprising the Company's customer base and their dispersion across different geographic areas. In addition, the Company routinely assesses the financial strength of its customers and maintains an allowance for doubtful accounts that management believes will adequately provide for credit losses. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses as considered necessary by management.

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Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is intended to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. In July 2018, the FASB issued additional guidance which provided an additional transition method for adopting the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. In June 2020, the FASB issued additional guidance which extends the effective date of ASU 2016-02 for emerging growth companies to begin in fiscal years beginning after December 15, 2021. We adopted ASU 2016-02 prospectively on January 1, 2022. As part of the adoption, we elected the package of practical expedients which permits us under the new standard not to reassess historical lease classification, not to recognize short-term leases on our balance sheet, and not to separate lease and non-lease components for all our leases. In addition, we elected the use of hindsight to determine the lease term of its leases and applied its incremental borrowing rate based on the remaining term of its leases as of the adoption date. The impact upon adoption, on January 1, 2022, resulted in the recognition of operating right-of-use assets of \$11,769, and operating lease liabilities of \$12,029 on our consolidated balance sheet. Refer to Note 17, *Leases*, for further discussion.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying existing guidance. For emerging growth companies, this ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company adopted this standard on January 1, 2022, which did not result in a material impact on our consolidated financial statements and related disclosures.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 includes an impairment model (known as the current expected credit loss model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The use of forecasted information is intended to incorporate more timely information in the estimate of expected credit loss. In November 2019, the FASB issued additional guidance which extends the effective date of ASU 2016-13 for emerging growth companies to begin in fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company plans to adopt this standard on January 1, 2023 and is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as the London Inter-Bank Offered Rate (“LIBOR”) which is being phased out in 2021, to alternate reference rates, such as the Secured Overnight Financing Rate (“SOFR”). The standard is currently effective and upon adoption may be applied prospectively to contract modifications made on or before December 31, 2022. The provisions have impact as contract modifications and other changes occur while LIBOR is phased out. The Company is in the process of evaluating the optional relief guidance provided within this ASU. Management will continue its assessment and monitor regulatory developments during the LIBOR transition period. Currently, management does not believe that the impact of transitioning from LIBOR to SOFR will have a material effect on the interest rates of the company.

There were no other new accounting standards that the Company expects to have a potential material impact to the financial position or results of operations upon adoption.

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2. ACQUISITIONS

Radar Acquisition

On January 11, 2022, Safariland, LLC, a wholly-owned subsidiary of the Company, completed the acquisition of Radar Leather Division S.r.l. (“Radar”), a premiere family-owned duty gear business based in Italy that specializes in the production of high-quality holsters, belts, duty belts, and other accessories.

The acquisition was accounted for as a business combination. Total acquisition-related costs for the acquisition of Radar were \$627, of which \$204 was incurred and recognized during the year ended December 31, 2022.

Total consideration, net of cash acquired, was \$19,365 for 100% of the equity interests in Radar. The total consideration was as follows:

Cash paid	\$	20,844
Less: cash acquired		(1,479)
Total consideration, net	\$	<u>19,365</u>

The following table summarizes the total purchase price consideration and the amounts recognized for the assets acquired and liabilities assumed, which have been estimated at their fair values. Since our initial purchase price allocation and during the measurement period, we have increased goodwill by \$390 for revisions made to cash paid, inventory acquired and deferred income taxes for certain book and tax basis differences as we completed the tax return filings for the pre-acquisition period. The excess of purchase consideration over the assets acquired and liabilities assumed is recorded as goodwill. Goodwill for the Radar acquisition is included in the Product segment and reflects synergies and additional legacy growth and profitability expected from this acquisition through expansion into new markets and customers.

Total consideration, net	\$	<u>19,365</u>
Accounts receivable	\$	2,347
Inventories		1,874
Prepaid expenses		682
Other current assets		665
Property and equipment		3,053
Intangible assets		10,200
Goodwill		7,101
Total assets acquired		<u>25,922</u>
Accounts payable		1,120
Deferred tax liabilities		2,787
Accrued liabilities		2,106
Long-term debt		544
Total liabilities assumed		<u>6,557</u>
Net assets acquired	\$	<u>19,365</u>

CADRE HOLDINGS, INC.

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In connection with the acquisition, the Company acquired exclusive rights to Radar’s trademarks, customer relationships, and product technologies. The amounts assigned to each class of intangible asset and the related average useful lives are as follows:

	<u>Gross</u>	<u>Average Useful Life</u>
Customer relationships	\$ 9,300	15
Technology	600	10
Trademarks	300	7
Total	<u>\$ 10,200</u>	

The full amount of goodwill of \$7,101 is expected to be non-deductible for tax purposes. No pre-existing relationships existed between the Company and Radar prior to the acquisition. Radar revenue and cost of goods sold are included in the Product segment from the date of acquisition. The acquisition was not material to our consolidated financial statements.

Cyalume Acquisition

On May 4, 2022, Safariland, LLC, a wholly-owned subsidiary of the Company, completed the acquisition of Cyalume Technologies, Inc, CT SAS Holdings, Inc. and Cyalume Technologies SAS (collectively “Cyalume”). Cyalume is engaged in the design and manufacture of proprietary chemical illumination solutions for a diverse range of products, including light sticks, infrared products, safety markings and non-pyrophoric training ammunition.

The acquisition was accounted for as a business combination. Acquisition-related costs for the acquisition of Cyalume were \$3,546 for the year ended December 31, 2022.

Total consideration, net of cash acquired, was \$36,178 for 100% of the equity interests in Cyalume. The total consideration was as follows:

Cash paid	\$ 38,012
Less: cash acquired	(1,834)
Total consideration, net	<u>\$ 36,178</u>

The following table summarizes the total purchase price consideration and the preliminary fair value amounts recognized for the assets acquired and liabilities assumed, which have been estimated at their fair values. The fair value estimates for the purchase price allocation are based on the Company’s best estimates and assumptions as of the reporting date and are considered preliminary. Since our initial purchase price allocation, we have increased goodwill by \$2,460 for revisions made to cash paid as a result of a working capital settlement and deferred income taxes for certain book and tax basis differences as we completed the tax return filings for the pre-acquisition period. The fair value measurements of identifiable assets, specifically property and equipment, liabilities, and the resulting goodwill related to the Cyalume acquisition are subject to change as we complete our valuation process and the final purchase price allocation could be different from the amounts presented below. We expect to finalize the valuations as soon as practicable, but no later than one year from the date of the acquisition. The excess of purchase consideration over the assets acquired and liabilities assumed is

CADRE HOLDINGS, INC.

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recorded as goodwill. Goodwill for the Cyalume acquisition is included in the Product segment and reflects synergies and additional legacy growth and profitability expected from this acquisition through expansion into new markets and customers.

Total consideration, net	\$ 36,178
Accounts receivable	\$ 3,302
Inventories	10,908
Prepaid expenses	255
Other current assets	10
Property and equipment	11,701
Intangible assets	8,300
Goodwill	9,101
Total assets acquired	<u>43,577</u>
Accounts payable	1,080
Deferred tax liabilities	4,454
Accrued liabilities	1,577
Other long-term liabilities	288
Total liabilities assumed	<u>7,399</u>
Net assets acquired	<u>\$ 36,178</u>

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

	<u>Gross</u>	<u>Average Useful Life</u>
Customer relationships	\$ 3,900	15
Technology	3,600	10
Trademarks	800	Indefinite
Total	<u>\$ 8,300</u>	

The full amount of goodwill of \$9,101 is expected to be non-deductible for tax purposes. No pre-existing relationships existed between the Company and Cyalume prior to the acquisition. Cyalume revenue and cost of goods sold are included in the Product segment from the date of acquisition. The acquisition was not material to our consolidated financial statements.

3. ACCOUNTS RECEIVABLE, NET

The following is a reconciliation of the changes in our allowance for doubtful accounts during fiscal 2022 and 2021:

	<u>Year ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Beginning allowance for doubtful accounts	\$ 645	\$ 1,113
Provision	417	(188)
Write-offs	(138)	(280)
Ending allowance for doubtful accounts	<u>\$ 924</u>	<u>\$ 645</u>

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4. DISPOSITIONS AND ASSETS AND LIABILITIES HELD FOR SALE

In October 2021, the Company designated our Daventry, UK facility as held for sale. Accordingly, during 2021, the Company determined that the assets and liabilities associated with the Daventry facility met the criteria for classification as held for sale but did not meet the criteria for classification as discontinued operations as the deconsolidation did not represent a strategic shift in the business.

In November 2022, the Company completed the sale of our Daventry, UK facility for a net sales price of \$411, resulting in a gain of \$170, which is included in other general income in the consolidated statements of operations and comprehensive income for the year ended December 31, 2022.

5. REVENUE RECOGNITION

The following tables disaggregate net sales by channel and geography:

	<u>Year ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
U.S. state and local agencies (a)	\$ 250,680	\$ 231,095
Commercial	45,357	34,860
U.S. federal agencies	51,165	47,575
International	106,593	107,503
Other	4,042	6,255
Net sales	<u>\$ 457,837</u>	<u>\$ 427,288</u>

(a) Includes all Distribution sales

	<u>Year ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
United States	\$ 351,244	\$ 319,785
International	106,593	107,503
Net sales	<u>\$ 457,837</u>	<u>\$ 427,288</u>

Revenue by product is not disclosed, as it is impractical to do so.

Contract Liabilities

Contract liabilities are recorded as a component of other liabilities when customers remit cash payments in advance of the Company satisfying performance obligations which are satisfied at a future point of time. Contract liabilities are derecognized when the performance obligation is satisfied. Contract liabilities are included in accrued liabilities in the Company's consolidated balance sheets and totaled \$4,615 and \$10,949, as of December 31, 2022 and 2021, with \$8,324 of the 2021 contract liabilities being recognized in revenue during the year ended December 31, 2022.

Remaining Performance Obligations

As of December 31, 2022, we had \$19,997 of remaining performance obligations, which included amounts that will be invoiced and recognized in future periods. The remaining performance obligations are limited only to arrangements that meet the definition of a contract under Topic 606 as of December 31, 2022. We expect to recognize 52% of this balance over the next twelve months and expect the remainder to be recognized in the following two years.

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6. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021 consisted of the following:

	December 31, 2022				December 31, 2021			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Interest rate swap (Note 11)	\$ 8,985	\$ —	\$ 8,985	\$ —	\$ 1,607	\$ —	\$ 1,607	\$ —
Liabilities:								
Interest rate swap (Note 11)	—	—	—	—	389	—	389	—

There were no transfers of assets or liabilities between levels during the years ended December 31, 2022 and 2021.

7. INVENTORIES

The following table sets forth a summary of inventories stated at lower of cost or net realizable value, as of December 31, 2022 and 2021:

	December 31,	
	2022	2021
Finished goods	\$ 25,208	\$ 28,707
Work-in-process	7,466	4,053
Raw materials and supplies	37,599	31,218
Total	<u>\$ 70,273</u>	<u>\$ 63,978</u>

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2022	2021
Land	\$ 7,545	\$ 4,620
Building and improvements	22,992	17,556
Furniture and fixtures	1,400	1,209
Computer hardware and software	24,140	23,547
Machinery and equipment	28,464	21,795
Construction in progress	3,438	1,497
	87,979	70,224
Less accumulated depreciation	(42,694)	(37,171)
Total	<u>\$ 45,285</u>	<u>\$ 33,053</u>

The Company recorded depreciation expense of \$6,851 and \$5,143 for the years ended December 31, 2022 and 2021, respectively, of which \$3,433 and \$2,144 was included in cost of goods sold in the consolidated statements of operations and comprehensive income for the respective years.

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9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table summarizes the changes in goodwill during the years ended December 31, 2022 and 2021:

	<u>Product</u>	<u>Distribution</u>	<u>Total</u>
Balance, December 31, 2020	\$ 63,698	\$ 2,616	\$ 66,314
Foreign currency translation adjustments	(52)	—	(52)
Balance, December 31, 2021	\$ 63,646	\$ 2,616	\$ 66,262
Radar acquisition	6,711	—	6,711
Cyalume acquisition	6,641	—	6,641
Measurement period adjustments	2,850	—	2,850
Foreign currency translation adjustments	(888)	—	(888)
Balance, December 31, 2022	<u>\$ 78,960</u>	<u>\$ 2,616</u>	<u>\$ 81,576</u>

Impairment of Goodwill

No impairment losses were recorded during the years ended December 31, 2022 and 2021. Gross goodwill and accumulated impairment losses was \$89,161 and \$7,585 as of December 31, 2022 and \$73,847 and \$7,585, respectively, as of December 31, 2021.

Intangible Assets

Intangible assets such as certain customer relationships and patents on core technologies and product technologies are amortizable over their estimated useful lives. Certain trade names and trademarks which provide exclusive and perpetual rights to manufacture and sell their respective products are deemed indefinite-lived and are therefore not subject to amortization.

Intangible assets, net of amortization, as of December 31, 2022 and 2021 are as follows:

	<u>December 31, 2022</u>			<u>Weighted Average Useful Life</u>
	<u>Gross</u>	<u>Accumulated amortization</u>	<u>Net</u>	
Definite lived intangibles:				
Customer relationships	\$ 85,847	\$ (59,122)	\$ 26,725	11
Technology	15,629	(11,309)	4,320	8
Tradenames	6,484	(4,254)	2,230	4
Non-compete agreements	973	(973)	—	4
	<u>\$ 108,933</u>	<u>\$ (75,658)</u>	<u>\$ 33,275</u>	
Indefinite lived intangibles:				
Tradenames	17,420	—	17,420	Indefinite
Total	<u>\$ 126,353</u>	<u>\$ (75,658)</u>	<u>\$ 50,695</u>	

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	December 31, 2021			Weighted Average Useful Life
	Gross	Accumulated amortization	Net	
Definite lived intangibles:				
Customer relationships	\$ 74,078	\$ (52,536)	\$ 21,542	11
Technology	11,978	(10,988)	990	7
Tradenames	6,473	(3,264)	3,209	4
Non-compete agreements	1,037	(1,037)	—	4
	<u>\$ 93,566</u>	<u>\$ (67,825)</u>	<u>\$ 25,741</u>	
Indefinite lived intangibles:				
Tradenames	16,674	—	16,674	Indefinite
Total	<u>\$ 110,240</u>	<u>\$ (67,825)</u>	<u>\$ 42,415</u>	

The Company recorded amortization expense of \$8,800 and \$8,575 for the years ended December 31, 2022 and 2021, respectively, of which \$439 and \$666 was included in cost of goods sold in the consolidated statements of operations and comprehensive income for the respective years.

The estimated amortization expense for definite-lived intangible assets for the next five years and thereafter is presented below:

2023	\$ 7,719
2024	5,015
2025	3,060
2026	2,665
2027	2,490
Thereafter	12,326
Total	<u>\$ 33,275</u>

10. ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2022 and 2021 are as follows:

	December 31,	
	2022	2021
Accrued expenses	\$ 3,656	\$ 3,226
Accrued compensation and payroll tax	20,420	19,227
Accrued interest payable	73	70
Accrued warranty expense	1,234	1,256
Deferred revenue and customer credit balances	5,937	12,605
Current lease liabilities	3,773	—
Other accrued liabilities	3,627	4,352
Total	<u>\$ 38,720</u>	<u>\$ 40,736</u>

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11. DEBT

The Company's debt is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Short-term debt:		
Insurance premium financing	\$ 2,211	\$ 3,174
Current portion of term loan	10,000	10,000
	<u>\$ 12,211</u>	<u>\$ 13,174</u>
Long-term debt:		
Revolver	—	—
Term loan	138,564	148,564
Other	512	—
	<u>\$ 139,076</u>	<u>\$ 148,564</u>
Unamortized debt discount and debt issuance costs	(1,600)	(2,048)
Total long-term debt, net	<u>\$ 137,476</u>	<u>\$ 146,516</u>

The following summarizes the aggregate principal payments of our long-term debt, excluding debt discount and debt issuance costs as of December 31, 2022:

2023	\$ 10,000
2024	10,128
2025	10,128
2026	118,692
2027	128
Thereafter	—
Total principal payments	<u>\$ 149,076</u>

New Credit Facility

On August 20, 2021 (the "Closing Date"), the Company refinanced its existing credit facilities and entered into a new credit agreement whereby Safariland, LLC, as borrower (the "Borrower"), the Company and certain domestic subsidiaries of the Borrower, as guarantors (the "Guarantors"), closed on and received funding under a credit agreement (initially entered into on July 23, 2021), pursuant to a First Amendment to Credit Agreement (as amended by the Second Amendment to Credit Agreement, dated as of December 14, 2022, collectively, the "New Credit Agreement") with PNC Bank, National Association ("PNC"), as administrative agent, and the several lenders from time to time party thereto (together with PNC, the "Lenders") pursuant to which the Borrower (i) borrowed \$200,000 under a term loan (the "Term Loan"), and (ii) may borrow up to \$100,000 under a revolving credit facility (including up to \$15,000 for letters of credit and up to \$10,000 for swing line loans) (the "Revolving Loan"). Each of the Term Loan and the Revolving Loan mature on July 23, 2026. Commencing December 31, 2021, the New Term Loan requires scheduled quarterly payments in amounts equal to 1.25% per quarter of the original aggregate principal amount of the Term Loan, with the balance due at maturity. The New Credit Agreement is guaranteed, jointly and severally, by the Guarantors and, subject to certain exceptions, secured by a first-priority security interest in substantially all of the assets of the Borrower and the Guarantors pursuant to a Security and Pledge Agreement and a Guaranty and Suretyship Agreement, each dated as of the Closing Date.

The Company performed an analysis on a creditor-by-creditor basis for debt modifications and extinguishments to determine the appropriate accounting treatment of associated issuance costs. In connection with the refinancing, the Company recorded a loss on debt extinguishment of \$15,155 for the year ended December 31, 2021 related to early extinguishments fees and the write-off of unamortized debt discount and debt issuance costs.

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In connection with the New Credit Agreement, the Company paid financing costs totaling \$4,114, of which \$2,749 related to the Term Loan and \$1,365 related to the Revolving Loan. Total financing costs consisted of \$1,916 of fees paid to lenders and \$2,198 of debt issuance costs. Costs incurred in connection with the Term Loan were deferred and recorded as an offset to long-term debt. Costs incurred in connection with the Revolving Loan were deferred and recorded to other assets. All deferred debt costs are amortized to interest expense over the term of the loan using the effective interest method.

As of December 31, 2022 and 2021, the Company had an unamortized debt discount of \$748 and \$956 and unamortized debt issuance costs of \$851 and \$1,092, respectively, included as an offset to debt in the consolidated balance sheets.

There were no amounts outstanding under any revolving loans as of December 31, 2022 and 2021. As of December 31, 2022, there were \$2,355 in outstanding letters of credit and \$97,645 of availability.

As of December 31, 2022 and 2021, the term loan outstanding principal balance was \$148,564 and \$158,564 and bore interest at 6.14% and 2.61%, respectively.

The Borrower may elect to have the Revolving Loan and Term Loan under the New Credit Agreement bear interest at a base rate or a LIBOR rate, in each case, plus an applicable margin. The applicable margin for these borrowings will range from 0.50% to 1.50% per annum, in the case of base rate borrowings, and 1.50% to 2.50% per annum, in the case of LIBOR borrowings, in each case based upon the level of the Company's consolidated total net leverage ratio. The New Credit Agreement also requires the Borrower to pay a commitment fee on the unused portion of the loan commitments. Such commitment fee will range between 0.175% and 0.25% per annum, and is also based upon the level of the Company's consolidated total net leverage ratio. The New Credit Agreement also contains customary representations and warranties, and affirmative and negative covenants, including limitations on additional indebtedness, dividends, and other distributions, entry into new lines of business, use of loan proceeds, capital expenditures, restricted payments, restrictions on liens on the assets of the Borrowers or any Guarantor, transactions with affiliates, amendments to organizational documents, accounting changes, sale and leaseback transactions, dispositions, and mandatory prepayments in connection with certain liquidity events. The New Credit Agreement contains certain restrictive debt covenants, which require us to: (i) maintain a minimum fixed charge coverage ratio of 1.25 to 1.00, starting with the quarter ended December 31, 2021, which is to be determined for each quarter end on a trailing four quarter basis and (ii) maintain a quarterly maximum consolidated total net leverage ratio of 3.75 to 1.00 from the quarter ended December 31, 2021 until the quarter ended September 30, 2022, and thereafter 3.50 to 1.00, which is in each case to be determined on a trailing four quarter basis; provided that under certain circumstances and subject to certain limitations, in the event of a material acquisition, we may temporarily increase the consolidated total net leverage ratio by up to 0.50 to 1.00 for four fiscal quarters following such acquisition. The New Credit Agreement contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, failure to make payment on, or defaults with respect to, certain other material indebtedness, bankruptcy and insolvency events, material judgments and change of control provisions. Upon the occurrence of an event of default, and after the expiration of any applicable grace period, payment of any outstanding loans under the New Credit Agreement may be accelerated and the Lenders could foreclose on their security interests in the assets of the Borrowers and the Guarantors.

Canadian Credit Facility

On October 14, 2021, Med-Eng Holdings ULC and Pacific Safety Products Inc., the Company's Canadian subsidiaries, as borrowers (the "Canadian Borrowers"), and Safariland, LLC, as guarantor (the "Canadian Guarantor"), closed on a line of credit pursuant to a Loan Agreement (the "Canadian Loan Agreement") and a Revolving Line of Credit Note (the "Note") with PNC Bank Canada Branch ("PNC Canada"), as lender pursuant to which the Canadian Borrowers may borrow up to CDN\$10,000 under a revolving line of credit (including up to \$3,000 for letters of credit) (the "Revolving Canadian Loan"). The Revolving Canadian Loan matures on July 23, 2026. The Canadian Loan Agreement is guaranteed by the Canadian Guarantor pursuant to a Guaranty and Suretyship Agreement.

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The Canadian Borrowers may elect to have borrowings either in United States dollars or Canadian dollars under the Canadian Loan Agreement, which will bear interest at a base rate or a LIBOR rate, in each case, plus an applicable margin, in the case of borrowings in United States dollars, or at a Canadian Prime Rate (as announced from time to time by PNC Canada) or a Canadian deposit offered rate (“CDOR”) as determined from time to time by PNC Canada in accordance with the Canadian Loan Agreement. The applicable margin for these borrowings will range from 0.50% to 1.50% per annum, in the case of base rate borrowings and Canadian Prime Rate borrowings, and 1.50% to 2.50% per annum, in the case of LIBOR borrowings and CDOR borrowings. The Canadian Loan Agreement also requires the Canadian Borrowers to pay (i) an unused line fee on the unused portion of the loan commitments in an amount ranging between 0.175% and 0.25% per annum, based upon the level of the Company’s consolidated total net leverage ratio, and (ii) an upfront fee equal to 0.25% of the principal amount of the Note.

There were no amounts outstanding under the Revolving Canadian Loan as of December 31, 2022 and 2021.

The Canadian Loan Agreement also contains customary representations and warranties, and affirmative and negative covenants, including, among others, limitations on additional indebtedness, entry into new lines of business, entry into guarantee agreements, making of any loans or advances to, or investments in, any other person, restrictions on liens on the assets of the Canadian Borrowers and mergers, transfers of assets and acquisitions. The Canadian Loan Agreement and Note also contain customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, failure to make payment on, or defaults with respect to, certain other material indebtedness, bankruptcy and insolvency events, material judgments and change of control provisions.

Upon the occurrence of an event of default, and after the expiration of any applicable grace period, payment of any outstanding loans under the Canadian Loan Agreement may be accelerated.

Short-Term Debt

In July 2021, the Company entered into a short-term loan facility for insurance premiums with Aon Premium Finance for \$3,436 with a maturity date of June 27, 2022. The loan had fixed annual interest of 3.75% on the outstanding balance and required monthly payments of principal and interest of \$318. As of December 31, 2021, \$1,889 was outstanding.

In July 2021, the Company entered into a short-term loan facility for insurance premiums with IPFS Corporation for \$410 with a maturity date of June 27, 2022. The loan had fixed annual interest of 1.98% on the outstanding balance and required monthly payments of principal and interest of \$37. As of December 31, 2021, \$221 was outstanding.

In November 2021, the Company entered into a short-term loan facility for insurance premiums with IPFS Corporation for \$1,183 with a maturity date of October 4, 2022. The loan had fixed annual interest of 1.98% on the outstanding balance and required monthly payments of principal and interest of \$108. As of December 31, 2021, \$1,064 was outstanding.

In July 2022, the Company entered into a short-term loan facility for insurance premiums with AFCO Credit Corporation for \$3,989 with a maturity date of June 27, 2023. The loan has fixed annual interest of 5.75% on the outstanding balance and requires monthly payments of principal and interest of \$373. As of December 31, 2022, \$2,211 was outstanding.

Fair Value of Debt

The fair value of our Term Loan is based upon established market prices for the securities using Level 2 inputs. The fair value of our Term Loan as of December 31, 2022 was \$151,530 compared to its carrying value of \$148,563. The Company classifies its long-term debt within Level 2 of the fair value hierarchy

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Interest Rate Swaps

In September 2021, we entered into an interest rate swap agreement to hedge forecasted monthly interest rate payments on our floating rate debt. As of December 31, 2022, we had the following interest rate swap agreement (the “Swap Agreement”):

<u>Effective date</u>	<u>Notional amount</u>	<u>Fixed rate</u>
September 30, 2021 through July 23, 2026	\$ 100,000	0.875 %

Under the terms of the Swap Agreement, we receive or make payments based on the 1-month LIBOR (approximately 4.38% as of December 31, 2022).

During the year ended December 31, 2022, there were no interest rate swap agreements that expired.

We entered into the Swap Agreement to convert a portion of the interest rate exposure on our floating rate debt from variable to fixed. We designated this Swap Agreement as a cash flow hedge. A portion of the amount included in accumulated other comprehensive income (loss) is reclassified into interest expense, net as a yield adjustment as interest is either paid or received on the hedged debt. The fair value of our Swap Agreement is based upon Level 2 inputs. We have considered our own credit risk and the credit risk of the counterparties when determining the fair value of our Swap Agreement.

It is our policy to execute such instruments with creditworthy banks and not to enter into derivative financial instruments for speculative purposes. We believe our interest rate swap counterparty will be able to fulfill their obligations under our agreement, and we believe we will have debt outstanding through the expiration date of the swap such that the occurrence of future cash flow hedges remains probable.

The estimated fair value of our Swap Agreement in the consolidated balance sheets was as follows:

<u>Balance sheet accounts</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other current assets	\$ 3,619	\$ —
Other assets	\$ 5,366	\$ 1,607
Accrued liabilities	\$ —	\$ 389

A cumulative gain, net of tax, of \$6,739 and \$913 is recorded in accumulated other comprehensive income (loss) as of December 31, 2022 and 2021, respectively.

The amount of gain, net of tax, recognized in other comprehensive income for the years ended December 31, 2022 and 2021 was \$6,444 and \$767, respectively. There was \$618, net of tax, reclassified from accumulated other comprehensive income (loss) into earnings for the year ended December 31, 2022.

As of December 31, 2022, approximately \$3,646 is expected to be reclassified from accumulated other comprehensive income (loss) into interest expense over the next 12 months.

12. SHAREHOLDERS' EQUITY

Initial Public Offering

On November 3, 2021, the Company completed its initial public offering (“IPO”) in which the Company issued and sold 6,900,000 shares, which included 900,000 shares that were offered and sold pursuant to the full exercise of the underwriters’

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over-allotment option, of common stock at a public offering price of \$13.00 per share. The Company's net proceeds from the sale of shares in the IPO was \$78,581 after underwriter discounts and commissions, fees and expenses of \$11,119, of which \$2,250 was paid to Kanders & Company, Inc., a company controlled by Warren B. Kanders, our Chief Executive Officer.

Secondary Offering

On June 9, 2022, the Company completed a secondary offering in which the Company issued and sold 2,250,000 shares of common stock at a price of \$23.50 per share. The Company's net proceeds from the sale of shares were \$46,987 after underwriter discounts and commissions, fees and expenses of \$2,715, of which \$2,000 was paid to Kanders & Company, Inc., a company controlled by Warren B. Kanders, our Chief Executive Officer.

On July 14, 2022, the underwriters exercised a portion of their over-allotment option and purchased an additional 300,000 shares of common stock at a price of \$23.50 per share, resulting in net proceeds to the Company of \$6,389 after underwriter discounts and commissions, fees and expenses of \$661.

Dividends

In August 2021, the Company declared and paid a \$10,000, or \$0.36 per share, dividend to shareholders on record as of August 11, 2021.

On November 11, 2021, the Company announced that its board of directors approved the initiation of a quarterly cash dividend policy of \$0.08 per share of the Company's common stock (the "Quarterly Cash Dividend") or \$0.32 per share on an annualized basis. The declaration and payment of future Quarterly Cash Dividends is subject to the discretion of and approval of the Company's board of directors. Our Quarterly Cash Dividends totaled \$11,509 and \$2,751 for the years ended December 31, 2022 and 2021, respectively.

13. STOCK-BASED COMPENSATION

2021 Phantom Restricted Share Plan

The Company maintains a cash-based executive compensation plan for certain employees. The Company's board of directors awarded 1,433,500 interests in the plan ("units"). Each unit represents an unfunded and unsecured right, subject to certain conditions as set forth by the plan. One-third of the units granted to any holder will vest on each of the first, second, and third anniversaries of March 18, 2021 during the term of such holder's employment with the Company. Payment of a holder's vested balance is dependent upon a transaction or series of related transactions constituting a qualifying exit event, as defined by the executive compensation plan. The plan will expire on March 18, 2025, at which time the plan and all awarded units will be terminated for no consideration if a qualifying exit event has not occurred before that date.

On March 9, 2022, the Company's board of directors modified the performance condition, specifically the definition of a qualifying exit event. In addition, the board of directors approved the settlement of vested and unvested units in common stock rather than cash, which resulted in a change in classification of the outstanding units from liability to equity. As a result, modification of the units occurred on March 9, 2022 with a grant date fair value of \$23.45, the closing stock price of the Company on the date of modification. There were 632,500 units that vested March 18, 2022 and 791,667 units that will vest in equal amounts on the second and third anniversaries of the plan. The Company recognized compensation expense of \$22,100 on March 9, 2022, the date the performance condition became probable.

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**Notes to Consolidated Financial Statements
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A summary of our phantom award activity for the year ended December 31, 2022 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2021	1,433,500	\$ —
Granted	—	—
Vested	(632,500)	23.45
Forfeited	(9,333)	23.45
Outstanding at December 31, 2022	<u>791,667</u>	<u>\$ 23.45</u>

The total fair value of phantom awards vested in 2022 was \$22,649.

Compensation cost related to phantom awards was \$28,578 for the year ended December 31, 2022 and is recorded in selling, general, and administrative expense. As of December 31, 2022, there was \$4,679 of unrecognized compensation cost related to phantom awards, which is expected to be recognized over a weighted-average period of 1.2 years.

2021 Stock Incentive Plan

In November 2021, we adopted the 2021 Stock Incentive Plan (the “2021 Plan”). The 2021 Plan provides for the grant of incentive stock options to our employees and any parent and subsidiary companies’ employees, and for the grant of non-statutory stock options, restricted stock, restricted stock units (“RSUs”), stock appreciation rights (“SARs”), performance units, and performance shares to our employees, directors, and consultants and our parent and subsidiary companies’ employees and consultants. The maximum aggregate number of shares of common stock that may be issued under the 2021 Plan is 9,650,000 shares. As of December 31, 2022, 4,418 shares of common stock were reserved and available for issuance under the 2021 Plan.

Market Condition Restricted Shares

On November 4, 2021, the Company issued and granted to certain employees a total of 2,600,000 RSUs under the 2021 Plan, of which 2,600,000 RSUs will vest if, on or before November 8, 2031, the Fair Market Value (as defined in the Plan) of the Company’s common stock shall have equaled or exceeded \$40.00 per share for twenty consecutive trading days. For computing the fair value of the 2,600,000 RSUs with a market condition, the fair value of the RSU grant has been estimated as of the date of grant using the Monte-Carlo pricing model with the assumptions below.

	2021
Number issued	2,600,000
Vesting period	\$40.00 stock price target
Grant price (per share)	\$4.65
Dividend yield	0.0%
Expected volatility	32.08%
Risk-free interest rate	1.59%
Expected term (years)	5.67
Weighted average fair value (per share)	\$4.65

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A summary of our market condition RSU activity for the year ended December 31, 2022 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2021	2,600,000	\$ 4.65
Granted	—	—
Vested	—	—
Forfeited	—	—
Outstanding at December 31, 2022	<u>2,600,000</u>	<u>\$ 4.65</u>

Compensation cost related to market condition RSUs was \$2,132 for the year ended December 31, 2022 and is recorded in selling, general, and administrative expense. As of December 31, 2022, there was \$9,602 of unrecognized compensation cost related to market condition RSUs, which is expected to be recognized over a weighted-average period of 4.5 years.

Stock Options

During the year ended December 31, 2022, the Company issued stock options for an aggregate of 373,479 shares under the 2021 Plan to directors and employees of the Company. The options issued during the year ended December 31, 2022 generally vest and become exercisable over a period of one to three years and expire ten years from the date of the grant.

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

	2022
Number issued	373,479
Vesting period	1 - 3 years
Grant price (per share)	\$23.45 - \$23.70
Dividend yield	1.35% - 1.36%
Expected volatility	33.22%
Risk-free interest rate	1.12%
Expected term (years)	4.61 - 6.00
Weighted average fair value (per share)	\$6.69

A summary of our stock option activity for the year ended December 31, 2022 is as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 31, 2021	—	\$ —	\$ —	—
Granted	373,479	23.46	—	10.0
Exercised	—	—	—	—
Forfeited	(5,868)	23.45	—	9.6
Outstanding at December 31, 2022	<u>367,611</u>	<u>\$ 23.46</u>	<u>\$ —</u>	<u>9.2</u>
Fully vested options outstanding at December 31, 2022	64,000	\$ 23.51	\$ —	9.2

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There were no options exercisable as of December 31, 2022 as the exercise price of all outstanding options was greater than the closing stock price.

Compensation cost related to stock options was \$974 for the year ended December 31, 2022 and is recorded in selling, general, and administrative expense. As of December 31, 2022, there was \$1,486 of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted-average period of 2.2 years.

Restricted Stock Units

During the year ended December 31, 2022, the Company granted 85,108 RSUs under the 2021 Plan to employees of the Company. The RSUs will vest in three equal installments over a three-year period from the date of grant and have a grant date fair value of the closing stock price of the Company on the date of grant.

A summary of our RSU activity for the year ended December 31, 2022 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2021	—	\$ —
Granted	85,108	23.45
Vested	—	—
Forfeited	(1,614)	23.45
Outstanding at December 31, 2022	<u>83,494</u>	<u>\$ 23.45</u>

Compensation cost related to RSUs was \$531 for the year ended December 31, 2022 and is recorded in selling, general, and administrative expense. As of December 31, 2022, there was \$1,427 of unrecognized compensation cost related to RSUs, which is expected to be recognized over a weighted-average period of 2.2 years.

14. COMPENSATION AND DEFINED CONTRIBUTION PLANS

The Company and its wholly owned subsidiaries sponsor Internal Revenue Code Section 401(k) defined contribution plans for the benefit of all full-time and part-time employees. Employees are entitled to make tax-deferred contributions up to the maximum allowed by law of their eligible compensation.

The Company sponsors various other non-U.S. Defined Contribution and Defined Profit-Sharing Plans that are offered by the Company's foreign subsidiaries. Many of these plans were assumed through the Company's acquisitions or are required by local regulatory requirements. The Company may deposit funds for these plans with insurance companies, or into government-managed accounts consistent with local regulatory requirements, as applicable.

Contribution to the plans are made by both the employee and the Company. The Company's contributions to the plans was \$3,198 and \$1,780 for the years ended December 31, 2022 and 2021, respectively.

Long-Term Incentive Plan

In March 2021, the Company initiated a cash-based long-term incentive plan. Each award granted under the plan shall be eligible to vest in three equal annual installments over a period of three consecutive one-year performance periods, with each installment of the award vesting on the last day of the applicable performance period, subject to the achievement of the performance metrics established by the board of directors for the applicable annual performance period.

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On March 9, 2022, the Company's board of directors approved the common stock settlement of vested awards of the long-term incentive plan. The board of directors also approved the option to settle unvested awards in common stock. Modification accounting was not applied as this change did not affect the fair value of the awards, vesting conditions, or the liability classification of the awards.

Total compensation expense related to this plan was \$1,369 and \$2,162 for the years ended December 31, 2022 and 2021, respectively, and is included in selling, general and administrative in the Company's consolidated statements of operations and comprehensive income.

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

In March 2020, the Company settled an administrative enforcement action filed by the U.S. Federal Trade Commission ("FTC") relating to Company's sale of VieVu, LLC to Axon Enterprise Inc. ("Axon") wherein the FTC alleged that the operative agreements contained non-compete and non-solicitation provisions in violation of Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. The FTC's administrative complaint sought only injunctive relief against the Company to enjoin the enforcement of these provisions, now and in the future, and did not seek monetary damages against the Company. In January 2020, the Company and Axon had rescinded these provisions. Pursuant to a consent agreement and proposed consent order entered into by the FTC and the Company, on June 11, 2020, the FTC issued a Decision and Order accepting the Consent Agreement (the "Order"). Under the Order, the Company agreed to not modify and reinstate the rescinded provisions and to not enter into any new similar provisions with Axon, absent prior approval from the FTC. In addition, as part of the Company's compliance program, the Order imposes an obligation to distribute to, and train the directors and officers on, the requirements of the consent order and to report annually for five years to the FTC ensuring compliance with the consent order. On July 10, 2020, the Company filed its Interim Verified Compliance Report and, thereafter, on June 11, 2021 and June 10, 2022, filed its Annual Compliance Reports, each as required by the Order.

In September 2021, Safariland, LLC, a wholly-owned subsidiary of the Company, received a jury verdict awarding \$7,500 to a plaintiff relating to a personal injury case wherein the plaintiff alleged various product liability claims against Safariland, LLC. The plaintiff in the proceeding, Mr. David Hakim, instituted the proceeding on July 24, 2015, through the filing of a complaint with the United States District Court, Northern District of Illinois, Eastern Division. In the proceeding, the plaintiff, a SWAT officer with the DuPage County Sheriff's Office ("DCSO"), alleged that he suffered injuries during a training exercise conducted by DCSO in which a Defense Technology Shotgun Breaching TKO round was deployed and passed through a door and lower-floor ceiling causing a fragment to strike plaintiff's back resulting in injury. Prior to the jury rendering its verdict, the court deferred ruling on Safariland, LLC's Motion for Judgment as a Matter of Law ("JMOL"). On November 8, 2021, Safariland, LLC filed its post-trial motions, including a supplemental JMOL, motion for new trial and remittitur. On April 18, 2022, the court denied Safariland, LLC's JMOL, motion for new trial and remittitur and, accordingly, entered a judgment in favor of plaintiff, David Hakim, as to the Third Claim. In response, Safariland, LLC timely filed its notice of appeal with the United States Court of Appeals for the Seventh Circuit. Safariland and Plaintiff have filed their appeal briefs, and oral arguments were held on October 25, 2022. While any litigation contains an element of uncertainty, the Company believes it is reasonably possible, not probable, that the Company could incur losses related to this case, however, any losses would be indemnified by our insurance carrier under applicable policies.

The Company is also involved in various legal disputes and other legal proceedings and claims that arise from time to time in the ordinary course of business. The Company vigorously defends itself against all lawsuits and evaluates the amount of reasonably possible losses that the Company could incur as a result of these matters. While any litigation contains an element of uncertainty, the Company believes that the reasonably possible losses that the Company could incur in excess of insurance coverage would not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

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Insurance

The Company has various insurance policies, including product liability insurance, covering risks and in amounts it considers adequate. There can be no assurance that the insurance coverage maintained by the Company is sufficient or will be available in adequate amounts or at a reasonable cost.

International

As an international company, we are, from time to time, the subject of investigations relation to the Company's international operations, including under U.S. export control laws (such as ITAR), the FCPA and other similar U.S. and international laws.

16. INCOME TAXES

Consolidated income from continuing operations before provision for income taxes consisted of the following:

	Year ended December 31,	
	2022	2021
U.S. operations	\$ 6,455	\$ 18,243
Foreign operations	2,918	949
Income before provision for income taxes	<u>\$ 9,373</u>	<u>\$ 19,192</u>

The provision for income taxes is detailed below:

	Year ended December 31,	
	2022	2021
Current tax provision:		
Federal	\$ 2,711	\$ —
State	624	907
Foreign	1,305	852
Total current provision	<u>4,640</u>	<u>1,759</u>
Deferred tax (benefit) provision:		
Federal	(24)	4,704
State	(5)	897
Foreign	(1,058)	(829)
Total deferred (benefit) provision	<u>(1,087)</u>	<u>4,772</u>
Total provision for income taxes	<u>\$ 3,553</u>	<u>\$ 6,531</u>

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

	Year ended December 31,	
	2022	2021
Federal statutory rate	21.0 %	21.0 %
Increase (decrease) in income taxes resulting from:		
State income taxes, net of federal income taxes	5.6	8.4
Change in valuation allowance	—	0.8
Current year tax credits	(6.5)	(4.7)
Difference between foreign and federal tax rate	5.4	2.8
Permanent items	12.2	5.2
Reserve for uncertain tax positions	0.5	—
Other	(0.3)	0.5
Effective tax rate	<u>37.9 %</u>	<u>34.0 %</u>

Deferred taxes have not been recognized for the excess financial reporting basis over the tax basis of investments of foreign subsidiaries. It is the Company's intent to permanently reinvest the earnings of those foreign subsidiaries in those jurisdictions. It is not practical to determine the amount of any unrecognized deferred tax liability on this item.

Deferred income tax assets and liabilities are determined based on the difference between the financial reporting carrying amounts and tax bases of existing assets and liabilities and operating loss and tax credit carryforwards. The tax effects of temporary differences giving rise to significant components of the Company's deferred income tax assets and liabilities are as follows:

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss and other carry forwards	\$ 7,335	\$ 12,477
Accrued liabilities	3,351	3,831
Reserves and other	3,039	2,265
263A uniform capitalization costs	201	657
Other deferred tax assets	5,232	1,911
Total deferred tax assets	<u>19,158</u>	<u>21,141</u>
Valuation allowance	(1,888)	(1,890)
Net deferred tax assets	<u>17,270</u>	<u>19,251</u>
Deferred tax liabilities:		
Intangibles	(5,789)	(2,624)
Depreciation	(4,447)	(3,403)
Goodwill	(7,560)	(6,594)
Other	(727)	(868)
Total deferred tax liabilities	<u>(18,523)</u>	<u>(13,489)</u>
Total deferred income taxes	<u>\$ (1,253)</u>	<u>\$ 5,762</u>

In assessing the realizability of deferred income tax assets, the Company performs an evaluation of whether it is more likely than not that some portion, or all, of its deferred income tax assets will not be realized. During the course of this evaluation, the Company considers all available positive and negative evidence and if, based upon the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded. Based on its current evaluation, the Company determined it was appropriate to decrease its valuation allowance by \$2 for the year ended December 31, 2022.

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As of December 31, 2022, the Company had net operating loss carryforwards that expire in varying amounts beginning in 2023 through 2038 and tax credit carryforwards that expire in varying amounts beginning in 2023 through 2037.

The total amount of unrecognized benefits on uncertain tax positions that, if recognized, would affect the Company's effective tax rate was \$1,986. A reconciliation of the change in the unrecognized income tax benefit for the years ended December 31, 2022 and 2021 is as follows:

	Year ended December 31,	
	2022	2021
Beginning unrecognized tax benefits	\$ 2,090	\$ 2,122
Current period unrecognized tax benefits	39	(32)
Foreign currency fluctuations	(143)	—
Ending unrecognized tax benefits	\$ 1,986	\$ 2,090

The Company recognizes interest expense and penalties related to unrecognized tax benefits as income tax expense. No amounts representing penalties and interest were recorded as income tax expense during the years ended December 31, 2022 and 2021. The Company had no interest or penalties accrued in the consolidated balance sheets as of December 31, 2022 and 2021.

The Company and its subsidiaries file income tax returns in the U.S. federal, various state and local, and certain foreign jurisdictions. As of December 31, 2022, the Company's tax years subsequent to 2016 are subject to examination by tax authorities with few exceptions. One of the Company's Canadian subsidiaries underwent an examination of its tax filings for the period June 1, 2016 through December 31, 2017. In January 2022, the Company received notification that the Canadian tax authority has completed its examination and proposed no changes to the tax filings.

17. LEASES

The Company leases certain manufacturing and office space, retail locations, and equipment. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company has elected not to recognize a lease liability or right-of-use ("ROU") asset for short-term leases (leases with a term of twelve months or less). The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company's incremental borrowing rate is the rate for collateralized borrowings based on the current economic environment, credit history, credit rating, value of leases, currency in which the lease obligation is satisfied, rate sensitivity, lease term and materiality. Our operating leases have remaining contractual terms of up to five years, some of which include options to extend the leases for up to five years.

The amount of assets and liabilities related to our operating leases were as follows:

	Balance sheet accounts	December 31, 2022
Assets:		
Operating lease assets	Operating lease assets	\$ 8,489
Liabilities:		
Current:		
Operating lease liabilities	Accrued liabilities	\$ 3,773
Long-term:		
Operating lease liabilities	Long-term operating lease liabilities	4,965
Total lease liabilities		\$ 8,738

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The components of lease expense are recorded to cost of sales and selling, general and administration expenses in the consolidated statements of comprehensive income. The components of lease expense were as follows:

	December 31, 2022
Fixed operating lease costs ⁽¹⁾	\$ 4,047
Variable operating lease costs	1,329
Total	\$ 5,376

(1) Includes short-term leases, which are immaterial.

The weighted average remaining lease term and weighted average discount rate is as follows:

	December 31, 2022
Weighted average remaining lease term (years):	
Operating leases	2.62
Weighted average discount rate:	
Operating leases	2.96 %

The approximate future minimum lease payments under operating leases as of December 31, 2022 are as follows:

2023	\$ 4,012
2024	2,958
2025	1,560
2026	513
2027	75
Thereafter	—
Total future lease payments	9,118
Less: Amount representing interest	(380)
Present value of lease liabilities	\$ 8,738

Future minimum lease payments required under non-cancelable operating leases as of December 31, 2021 are as follows:

2022	\$ 4,293
2023	3,853
2024	2,725
2025	1,391
2026	406
Thereafter	35
Total minimum lease payments	\$ 12,703

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Supplemental cash flow information related to leases is as follows:

	<u>December 31, 2022</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows - operating leases	\$ 4,047
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	\$ —

18. RELATED PARTY TRANSACTIONS

The Company leases several distribution warehouses and retail stores from related parties. During the years ended December 31, 2022 and 2021 the Company made payments and recorded rent expense related to these leases of \$478 and \$579 respectively which are included in related party expense in the Company's consolidated statements of operations and comprehensive income.

For the year ended December 31, 2022, the Company made the following payments to Kanders & Company, Inc., a company controlled by Warren B. Kanders, our Chairman of the Board:

- \$1,000 for services related to the acquisition of Cyalume, which is included in related party expense in the Company's consolidated statements of operations and comprehensive income.
- \$2,000 for services related to the Company's secondary offering, which is included in direct offering costs and recorded against offering proceeds in additional paid in capital in the Company's consolidated balance sheets.

For the year ended December 31, 2021, the Company made the following payments to Kanders & Company, Inc.:

- \$2,250 for services related to the Company's initial public offering, which is included in direct offering costs and recorded against offering proceeds in additional paid in capital in the Company's consolidated balance sheets.
- \$1,000 for services related to the execution of the New Credit Agreement, which is included in debt issuance costs and recorded as an offset to long-term debt in the Company's consolidated balance sheets.

19. RESTRUCTURING

During the year ended December 31, 2021, the Company initiated and completed a plan to consolidate operations in the U.K. and incurred and paid \$395 of restructuring changes.

Restructuring expenses are included within restructuring and transactions costs in the Company's consolidated statements of operations and comprehensive income.

20. SEGMENT DATA

Our operations are comprised of two reportable segments: Product and Distribution. Segment information is consistent with how the chief operating decision maker ("CODM"), our chief executive officer, reviews the business, makes investing and resource

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allocation decisions and assesses operating performance. Senior management evaluates segment performance based on segment profit. Each segment's profit is measured as gross profit. The CODM is not provided asset information or operating expenses by segment.

	Year ended December 31, 2022			
	Product	Distribution	Reconciling Items ⁽¹⁾	Total
Net sales	\$ 385,423	\$ 97,106	\$ (24,692)	\$ 457,837
Cost of goods sold	230,245	76,633	(24,719)	282,159
Gross profit	<u>\$ 155,178</u>	<u>\$ 20,473</u>	<u>\$ 27</u>	<u>\$ 175,678</u>

	Year ended December 31, 2021			
	Product	Distribution	Reconciling Items ⁽¹⁾	Total
Net sales	\$ 362,189	\$ 90,043	\$ (24,944)	\$ 427,288
Cost of goods sold	213,881	67,649	(24,932)	256,598
Gross profit	<u>\$ 148,308</u>	<u>\$ 22,394</u>	<u>\$ (12)</u>	<u>\$ 170,690</u>

(1) Reconciling items consist primarily of intercompany eliminations and items not directly attributable to operating segments.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, its principal executive officer and principal financial officer, respectively, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(c) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of December 31, 2022, pursuant to Exchange Act Rule 13a-15. Such disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the appropriate management on a basis that permits timely decisions regarding disclosure. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of December 31, 2022 were effective.

Management's Report on Internal Control Over Financial Reporting

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

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

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

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework (2013)*.

On May 4, 2022, the Company completed the acquisition of Cyalume. Management excluded Cyalume from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. Cyalume's financial statements constitute 11% of total assets (excluding goodwill and intangible assets, which are included within the assessment) and 4% of total sales of the consolidated financial statement amounts as of and for the year ended December 31, 2022.

Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2022.

Changes in Internal Control over Financial Reporting

The Company acquired Cyalume on May 4, 2022 and is currently in the process of integrating the internal controls over financial reporting at Cyalume. Except for the continued integration of Cyalume, there has been no change in our internal control over financial reporting during the quarter ended December 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls can prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The Company has adopted a Code of Business Conduct and ethics that applies to all of its directors and employees, including the chief executive officer, chief financial officers, and all senior financial officers of the Company and its subsidiaries, including the principal financial officer, principal accounting officer, controller and internal audit staff of the Company and its subsidiaries. In addition, such officers are also subject to the Code of Ethics for Senior Executive Officer and Senior Financial Officers. These documents may be accessed at www.cadre-holdings.com, our Internet website, at the tab “Governance” under the section called “Governance Documents.” The Company intends to disclose future amendments to, or waivers from, certain provisions of its codes of conduct, if any, on the above website within five business days following the date of such amendment or waiver.

Other information required by this Item 10 of Form 10-K will be included in our Proxy Statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2022 (the “2023 Proxy Statement”), and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item 11 of Form 10-K will be included in our 2023 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 of Form 10-K will be included in our 2023 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 of Form 10-K will be included in our 2023 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant's Fees and Services

The information required by this Item 14 of Form 10-K will be included in our 2023 Proxy Statement and is incorporated herein by reference

Part IV**Item 15. Exhibits and Financial Statement Schedules****Financial Statements, Financial Statement Schedules and Exhibits**

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

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

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

EXHIBIT INDEX

Exhibit Number	Description
2.1	Stock Purchase Agreement dated May 3, 2022, by and between Safariland, LLC and Cyalume Technologies Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 6, 2022).
3.1	Amended and Restated and Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed on July 12, 2021).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed on July 12, 2021).
4.1	See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws of the Company defining rights of the holders of Common Stock of the Company.
10.01	Safariland Group Long-Term Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.02	Form of Award Agreement under the Safariland Group Long-Term Incentive Plan (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.03	Safariland Group 2021 Amended and Restated Phantom Restricted Share Plan (incorporated by reference to Exhibit 10.23 to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on August 3, 2021). +
10.04	Form of Award Agreement under the Safariland Group 2021 Amended and Restated Phantom Restricted Share Plan (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.05	2021 Stock Incentive Plan (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.06	Form of Option Agreement under the 2021 Stock Incentive Plan (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.07	Form of Stock Award Agreement under the 2021 Stock Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.08	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 filed on July 12, 2021).
10.09	Employment Agreement between Cadre Holdings, Inc. and Warren B. Kanders, dated as of July 9, 2021 (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.10	First Amendment to Employment Agreement between Cadre Holdings, Inc. and Warren B. Kanders, dated September 1, 2021 (incorporated by reference to Exhibit 10.25 to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on September 13, 2021). +
10.11	Employment Agreement between Cadre Holdings, Inc. and Brad Williams, dated as of July 9, 2021 (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.12	First Amendment to Employment Agreement between Cadre Holdings, Inc. and Brad Williams, dated September 1, 2021 (incorporated by reference to Exhibit 10.26 to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on September 13, 2021). +
10.13	Employment Agreement between Cadre Holdings, Inc. and Blaine Browers, dated as of July 9, 2021 (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 filed on July 12, 2021). +
10.14	First Amendment to Employment Agreement between Cadre Holdings, Inc. and Blaine Browers, dated September 1, 2021 (incorporated by reference to Exhibit 10.27 to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on September 13, 2021). +

10.15	Credit Agreement, dated July 23, 2021, by and among Cadre Holdings, Inc., certain of its domestic subsidiaries, as guarantors, PNC Bank, National Association, as administrative agent, and the several lenders from time to time party thereto (incorporated by reference to Exhibit 10.22 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on July 27, 2021).
10.16	First Amendment to Credit Agreement, dated August 20, 2021, by and among Cadre Holdings, Inc., certain of its domestic subsidiaries, as guarantors, PNC Bank, National Association, as administrative agent, and the several lenders from time to time party thereto (incorporated by reference to Exhibit 10.24 to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on September 13, 2021).
10.17*	Second Amendment to Credit Agreement, dated December 14, 2022, by and among Cadre Holdings, Inc., certain of its domestic subsidiaries, as guarantors, PNC Bank, National Association, as administrative agent, and the several lenders from time to time party thereto.*
10.18	Loan Agreement, dated as of October 14, 2021, by and among Med-Eng Holdings ULC and Pacific Safety Products Inc., as borrowers, and PNC Bank Canada Branch, as lender (incorporated by reference to Exhibit 10.28 to Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on October 28, 2021).
21.1*	Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

+ Indicates management contract or compensatory plan

SUBSIDIARIES OF CADRE HOLDINGS, INC.

The following are subsidiaries of Cadre Holdings, Inc. as of December 31, 2022 and the jurisdictions in which they are organized.

<u>Company</u>	<u>State or Jurisdiction of Incorporation/Organization</u>
Safariland, LLC	Delaware
Safariland Global Sourcing, LLC	Delaware
Horsepower, LLC	Delaware
Sencan Holdings, LLC	Delaware
Med-Eng, LLC	Delaware
Atlantic Tactical, Inc.	Pennsylvania
GH Armor Systems Inc.	Delaware
Defense Technology, LLC	Delaware
Safariland Distribution, LLC	Delaware
Lawmen's Distribution, LLC	Delaware
United Uniform Distribution, LLC	Delaware
Safariland Internacional S.A. de C.V.	Mexico
The Safariland Group Hong Kong Limited	Hong Kong
The Safariland Group Nederland B.V.	Netherlands
UAB Safariland Lithuania	Lithuania
The Safariland Group SPRL	Belgium
Med-Eng Holdings ULC	British Columbia
Pacific Safety Products Inc.	Canada
TSG UK Investment Holdings Limited	England and Wales
Safariland UK Holding Limited	England and Wales
Safariland UK Ltd.	England and Wales
LBA International Limited	England and Wales
SenCan Limited	England and Wales
TSG Italy Investment Holdings S.r.l.	Italy
Radar Leather Division S.r.l.	Italy
Cyalume Technologies, Inc.	Delaware
CT SAS Holdings, Inc.	Delaware
Cyalume Technologies SAS	France

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement (No. 333-261813) on Form S-8 of our report dated March 15, 2023, with respect to the consolidated financial statements of Cadre Holdings, Inc.

Our report on the consolidated financial statements refers to a change in the method of accounting for leases as of January 1, 2022 due to the adoption of Accounting Standards Update 2016-02, Leases, and several related amendments, as issued by the Financial Accounting Standards Board.

/s/ KPMG LLP
Jacksonville, Florida
March 15, 2023

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Warren B. Kanders, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cadre Holdings, 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2023

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

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Blaine Browers, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cadre Holdings, 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2023

By: /s/ Blaine Browers

Name: Blaine Browers

Title: Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Annual Report of Cadre Holdings, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Warren B. Kanders, Chief Executive Officer, certify to my knowledge, 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 13(a) or 15(d) 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.

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

Date: March 15, 2023

By: /s/ Warren B. Kanders

Name: Warren B. Kanders

Title: Chief Executive Officer

(Principal Executive Officer)

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

In connection with the Annual Report of Cadre Holdings, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Blaine Browers, Chief Financial Officer, certify to my knowledge, 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 13(a) or 15(d) 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.

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

Date: March 15, 2023

By: /s/ Blaine Browers

Name: Blaine Browers

Title: Chief Financial Officer
(Principal Financial Officer)



CADRE HOLDINGS 2022 ANNUAL REPORT

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Wednesday, May 31, 2023 at 10:00 a.m. Eastern Daylight Savings Time in a virtual-only meeting format via live webcast. Detailed information about the meeting and instructions on how to participate in this year's virtual meeting are contained in the Notice of Annual Meeting and Proxy Statement sent with a copy of this Annual Report.

CORPORATE INFORMATION

Board of Directors

Warren B. Kanders

Chief Executive Officer & Chairman of the Board

Hamish Norton

President, Star Bulk Carriers Corp.

Nicholas Sokolow

Partner, Lebow & Sokolow, LLP

William Quigley

Director

Deborah Decotis

Director

Management Team

Warren B. Kanders

Chief Executive Officer & Chairman of the Board

Brad Williams

President

Blaine Browers

Chief Financial Officer

STOCKHOLDER INFORMATION

Headquarters

13386 International Parkway
Jacksonville, FL 32218
(800) 347-1200

Investor Relations

The IGB Group
Leon Bertram
(212) 477-8438

Securities Listing

The Company's common stock is listed on the New York Stock Exchange: CDRE

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Ave, Brooklyn, NY 11219
(800) 937-5449

Independent Auditor

KPMG LLP
Jacksonville, FL

Outside Legal Counsel

Kane Kessler, P.C.
New York, NY



FLIR

Raymarine



SHERIFF

COMPANY OVERVIEW

For over 55 years, Cadre Holdings, Inc. (“Cadre” or “the Company”) has been a global leader in the manufacturing and distribution of safety and survivability equipment for first responders. The Company’s equipment provides critical protection which allows its users to safely perform their duties and protect those around them in hazardous or life-threatening situations. Through its dedication to superior quality, Cadre establishes a direct covenant with end users that its products will perform and keep them safe when they are most needed. Cadre sells a wide range of products, including body armor, explosive ordnance disposal equipment and duty gear through both direct and indirect channels. In addition, through the Company’s owned distribution, the Company serves as a one-stop shop for first responders providing equipment the Company manufactures as well as third-party products including uniforms, optics, boots, firearms, and ammunition. The majority of the Company’s diversified product offering is governed by rigorous safety standards and regulations. Demand for the Company’s products is driven by technological advancement as well as recurring modernization and replacement cycles for the equipment to maintain its efficiency, effective performance and regulatory compliance.

Cadre’s target end user base includes domestic and international first responders such as state and local law enforcement, fire and rescue, explosive ordnance disposal technicians, emergency medical technicians (“EMT”), fishing and wildlife enforcement and departments of corrections, as well as federal agencies including the U.S. Department of State (“DoS”), U.S. Department of Defense (“DoD”), U.S. Department of Interior (“DoI”), U.S. Department of Justice (“DoJ”), U.S. Department of Homeland Security (“DHS”), U.S. Department of Corrections (“DoC”) and numerous foreign government agencies in over 100 countries.

 **CADRE**
HOLDINGS