

## Section 1: 10-Q (10-Q)

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

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

For the quarterly period ended January 1, 2017

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 1-36597



**Vista Outdoor Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**262 N University Drive**  
**Farmington, UT**

(Address of principal executive offices)

**47-1016855**  
(I.R.S. Employer  
Identification No.)

**84025**  
(Zip Code)

Registrant's telephone number, including area code: **(801) 447-3000**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

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

As of February 6, 2017, there were 57,054,063 shares of the registrant's voting common stock outstanding.

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**PART I— FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(unaudited)

| (Amounts in thousands except per share data)   | Quarter ended       |                    | Nine months ended   |                    |
|--|---------------------|--------------------|---------------------|--------------------|
|  | January 1,<br>2017  | January 3,<br>2016 | January 1,<br>2017  | January 3,<br>2016 |
| Sales, net   | \$ 653,558          | \$ 592,557         | \$ 1,968,139        | \$ 1,658,431       |
| Cost of sales  | 484,952             | 425,053            | 1,442,747           | 1,202,611          |
| Gross profit   | 168,606             | 167,504            | 525,392             | 455,820            |
| Operating expenses:  |                     |                    |                     |                    |
| Research and development   | 8,170               | 3,681              | 24,151              | 8,851              |
| Selling, general, and administrative   | 95,893              | 88,591             | 303,060             | 252,011            |
| Acquisition claim settlement gain, net   | —                   | —                  | (30,027)            | —                  |
| Goodwill and intangibles impairment  | 449,199             | —                  | 449,199             | —                  |
| Income (loss) before interest and income taxes   | (384,656)           | 75,232             | (220,991)           | 194,958            |
| Interest expense, net  | (10,551)            | (7,776)            | (32,657)            | (16,908)           |
| Income (loss) before income taxes  | (395,207)           | 67,456             | (253,648)           | 178,050            |
| Income tax provision (benefit)   | (17,548)            | 24,297             | 21,663              | 68,326             |
| Net income (loss)  | <u>\$ (377,659)</u> | <u>\$ 43,159</u>   | <u>\$ (275,311)</u> | <u>\$ 109,724</u>  |
| Earnings (loss) per common share:  |                     |                    |                     |                    |
| Basic  | \$ (6.48)           | \$ 0.70            | \$ (4.63)           | \$ 1.76            |
| Diluted  | \$ (6.44)           | \$ 0.70            | \$ (4.60)           | \$ 1.75            |
| Weighted-average number of common shares outstanding:  |                     |                    |                     |                    |
| Basic  | 58,275              | 61,717             | 59,478              | 62,175             |
| Diluted  | 58,634              | 62,092             | 59,819              | 62,534             |
| Net income (loss) (from above)   | \$ (377,659)        | \$ 43,159          | \$ (275,311)        | \$ 109,724         |
| Other comprehensive income (loss), net of tax:   |                     |                    |                     |                    |
| Pension and other postretirement benefit liabilities:  |                     |                    |                     |                    |
| Reclassification of prior service credits for pension and postretirement benefit plans recorded to net income, net of tax benefit of \$162 and \$158, respectively, for the quarter ended, and \$486 and \$474, respectively, for the nine months ended          | (274)               | (267)              | (822)               | (801)              |
| Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax expense of \$(734) and \$(819), respectively, for the quarter ended, and \$(2,202) and \$(2,457), respectively, for the nine months ended | 1,236               | 1,381              | 3,708               | 4,143              |
| Change in derivatives, net of tax benefit (expense) of \$0 and \$2, respectively, for the quarter ended, and \$0 and \$(49), respectively, for the nine months ended   | —                   | (3)                | —                   | 83                 |
| Change in cumulative translation adjustment, net of tax benefit of \$0 and \$0, respectively, for the quarter ended, and \$0 and \$0, respectively, for the nine months ended  | (10,711)            | (788)              | (15,255)            | (4,837)            |
| Total other comprehensive income (loss)  | (9,749)             | 323                | (12,369)            | (1,412)            |
| Comprehensive income (loss)  | <u>\$ (387,408)</u> | <u>\$ 43,482</u>   | <u>\$ (287,680)</u> | <u>\$ 108,312</u>  |

See Notes to the Condensed Consolidated Financial Statements.

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**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited)

| (Amounts in thousands except share data)  | January 1, 2017     | March 31, 2016      |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$ 40,841           | \$ 151,692          |
| Net receivables   | 533,334             | 428,398             |
| Net inventories   | 585,116             | 440,240             |
| Income tax receivable   | 8,904               | —                   |
| Other current assets  | 28,443              | 29,334              |
| Total current assets  | 1,196,638           | 1,049,664           |
| Net property, plant, and equipment  | 247,715             | 203,485             |
| Goodwill  | 855,215             | 1,023,451           |
| Net intangible assets   | 717,165             | 650,472             |
| Deferred charges and other non-current assets   | 27,432              | 15,562              |
| Total assets  | <u>\$ 3,044,165</u> | <u>\$ 2,942,634</u> |
| <b>LIABILITIES AND EQUITY</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Current portion of long-term debt   | \$ 222,000          | \$ 17,500           |
| Accounts payable  | 102,904             | 147,738             |
| Accrued compensation  | 39,923              | 47,394              |
| Accrued income taxes  | —                   | 12,171              |
| Federal excise tax  | 31,196              | 27,701              |
| Other current liabilities   | 181,421             | 116,397             |
| Total current liabilities   | 577,444             | 368,901             |
| Long-term debt  | 921,601             | 652,787             |
| Deferred income tax liabilities   | 153,130             | 135,957             |
| Accrued pension and postemployment liabilities  | 69,575              | 73,503              |
| Other long-term liabilities   | 64,731              | 51,319              |
| Total liabilities   | 1,786,481           | 1,282,467           |
| Commitments and contingencies (Notes 10 and 13)   |                     |                     |
| <b>Common stock—\$.01 par value:</b>  |                     |                     |
| Authorized—500,000,000 shares   |                     |                     |
| Issued and outstanding— 57,722,723 shares at January 1, 2017 and 60,825,914 shares at March 31, 2016                    | 577                 | 608                 |
| Additional paid-in capital  | 1,755,742           | 1,743,371           |
| (Accumulated deficit) Retained earnings   | (108,890)           | 166,421             |
| Accumulated other comprehensive loss  | (122,583)           | (110,214)           |
| Common stock in treasury, at cost— 6,241,716 shares held at January 1, 2017 and 3,138,525 shares held at March 31, 2016 | (267,162)           | (140,019)           |
| Total stockholders' equity  | 1,257,684           | 1,660,167           |
| Total liabilities and stockholders' equity  | <u>\$ 3,044,165</u> | <u>\$ 2,942,634</u> |

See Notes to the Condensed Consolidated Financial Statements.

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**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

| (Amounts in thousands)  | Nine months ended |                 |
|---|-------------------|-----------------|
|   | January 1, 2017   | January 3, 2016 |
| <b>Operating Activities:</b>  |                   |                 |
| Net income (loss)   | \$ (275,311)      | \$ 109,724      |
| Adjustments to net income(loss) to arrive at cash provided by operating activities: |                   |                 |
| Depreciation  | 40,805            | 28,134          |
| Amortization of intangible assets   | 31,020            | 24,602          |
| Goodwill and intangibles impairment   | 449,199           | —               |
| Amortization of deferred financing costs  | 3,474             | 1,831           |
| Deferred income taxes   | (30,171)          | 697             |
| Loss (gain) on disposal of property, plant, and equipment                           | 140               | (180)           |
| Stock-based compensation  | 9,603             | 9,055           |
| Excess tax benefits from share-based plans  | —                 | (206)           |
| Changes in assets and liabilities, net of acquisition of businesses:                |                   |                 |
| Net receivables   | (19,226)          | (36,387)        |
| Net inventories   | (85,162)          | (75,437)        |
| Accounts payable  | (79,414)          | (32,909)        |
| Accrued compensation  | (18,871)          | 5,328           |
| Accrued income taxes  | (15,863)          | (4,543)         |
| Federal excise tax  | 3,566             | 5,688           |
| Pension and other postretirement benefits   | 635               | 3,458           |
| Other assets and liabilities  | 43,467            | 32,433          |
| Cash provided by operating activities   | 57,891            | 71,288          |
| <b>Investing Activities:</b>  |                   |                 |
| Capital expenditures  | (49,302)          | (26,301)        |
| Acquisition of businesses, net of cash acquired                                     | (458,149)         | (462,116)       |
| Proceeds from the disposition of property, plant, and equipment                     | 92                | 696             |
| Cash used for investing activities  | (507,359)         | (487,721)       |
| <b>Financing Activities:</b>  |                   |                 |
| Borrowings on line of credit  | 445,000           | 360,000         |
| Payments on line of credit  | (255,000)         | (360,000)       |
| Proceeds from issuance of long-term debt  | 307,500           | 350,000         |
| Payment from former parent  | —                 | 6,500           |
| Payments made on long-term debt   | (24,000)          | (13,125)        |
| Payments made for debt issuance costs   | (3,660)           | (4,379)         |
| Purchase of treasury shares   | (122,860)         | (115,194)       |
| Deferred payments for acquisitions  | (7,136)           | —               |
| Excess tax benefits from share-based plans  | —                 | 206             |
| Proceeds from employee stock compensation plans                                     | 75                | 438             |
| Cash provided by financing activities   | 339,919           | 224,446         |
| Effect of foreign exchange rate fluctuations on cash                                | (1,302)           | (830)           |
| Decrease in cash and cash equivalents   | (110,851)         | (192,817)       |
| Cash and cash equivalents at beginning of period                                    | 151,692           | 263,951         |
| Cash and cash equivalents at end of period  | \$ 40,841         | \$ 71,134       |
| <b>Supplemental Cash Flow Disclosures:</b>  |                   |                 |
| Non-cash investing activity:  |                   |                 |
| Capital expenditures included in accounts payable                                   | \$ 2,760          | \$ 921          |

Non-cash financing activity:

|   |    |       |    |       |
|---|----|-------|----|-------|
| Treasury shares purchased included in other accrued liabilities | \$ | 4,479 | \$ | 1,934 |
|---|----|-------|----|-------|

See Notes to the Condensed Consolidated Financial Statements.

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(unaudited)

| (Amounts in thousands except share data)    | <u>Common Stock \$.01 Par Value</u> |               | Additional<br>Paid-In<br>Capital | (Accumulated<br>Deficit)<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock   | Total<br>Equity     |
|---|-------------------------------------|---------------|----------------------------------|--|---|---------------------|---------------------|
|   | Shares                              | Amount        |                                  |  |   |                     |                     |
| <b>Balance, March 31, 2015</b>              | <b>63,878,499</b>                   | <b>\$ 639</b> | <b>\$1,742,125</b>               | <b>\$ 19,384</b>                                 | <b>\$ (110,303)</b>                           | <b>\$ (3,081)</b>   | <b>\$ 1,648,764</b> |
| Comprehensive income                        | —                                   | —             | —                                | 109,724  | (1,412)                                       | —                   | 108,312             |
| Exercise of stock options                   | 20,078                              | —             | (426)                            | —  | —   | 864                 | 438                 |
| Restricted stock grants net of forfeitures  | 68,272                              | —             | (3,046)                          | —  | —   | 3,265               | 219                 |
| Share-based compensation                    | —                                   | —             | 9,055                            | —  | —   | —                   | 9,055               |
| Restricted stock vested and shares withheld | (21,955)                            | —             | 955                              | —  | —   | (1,157)             | (202)               |
| Treasury stock purchased                    | (2,607,436)                         | —             | —                                | —  | —   | (115,355)           | (115,355)           |
| Contribution from former parent and other   | 647                                 | (26)          | (6,479)                          | —  | —   | 28                  | (6,477)             |
| <b>Balance, January 3, 2016</b>             | <b>61,338,105</b>                   | <b>\$ 613</b> | <b>\$1,742,184</b>               | <b>\$ 129,108</b>                                | <b>\$ (111,715)</b>                           | <b>\$ (115,436)</b> | <b>\$ 1,644,754</b> |
| <b>Balance, March 31, 2016</b>              | <b>60,825,914</b>                   | <b>\$ 608</b> | <b>\$1,743,371</b>               | <b>\$ 166,421</b>                                | <b>\$ (110,214)</b>                           | <b>\$ (140,019)</b> | <b>\$ 1,660,167</b> |
| Comprehensive income (loss)                 | —                                   | —             | —                                | (275,311)  | (12,369)                                      | —                   | (287,680)           |
| Exercise of stock options                   | 4,892                               | —             | (147)                            | —  | —   | 222                 | 75                  |
| Restricted stock grants net of forfeitures  | (22,289)                            | —             | (66)                             | —  | —   | (365)               | (431)               |
| Share-based compensation                    | —                                   | —             | 9,603                            | —  | —   | —                   | 9,603               |
| Restricted stock vested and shares withheld | 4,881                               | —             | (318)                            | —  | —   | (440)               | (758)               |
| Treasury stock purchased                    | (3,095,952)                         | —             | —                                | —  | —   | (126,560)           | (126,560)           |
| Contribution from former parent and other   | 5,277                               | (31)          | 3,299                            | —  | —   | —                   | 3,268               |
| <b>Balance, January 1, 2017</b>             | <b>57,722,723</b>                   | <b>\$ 577</b> | <b>\$1,755,742</b>               | <b>\$ (108,890)</b>                              | <b>\$ (122,583)</b>                           | <b>\$ (267,162)</b> | <b>\$ 1,257,684</b> |

See Notes to the Condensed Consolidated Financial Statements.



**VISTA OUTDOOR INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Quarter and nine months ended January 1, 2017**  
**(Amounts in thousands except share and per share data unless otherwise indicated)**

**1. Basis of Presentation and Responsibility for Interim Financial Statements**

**Nature of Operations.** Vista Outdoor Inc. (together with our subsidiaries, "we", "our", and "us") is a leading global designer, manufacturer, and marketer of consumer products in the growing outdoor sports and recreation markets. We operate in two segments, Outdoor Products and Shooting Sports. Vista Outdoor is headquartered in Farmington, Utah and has manufacturing operations and facilities in 13 U.S. States, Canada, Mexico, and Puerto Rico along with international customer service, sales, and sourcing operations in Asia, Australia, Canada, Europe, and New Zealand. Vista Outdoor was incorporated in Delaware in 2014.

This Quarterly Report on Form 10-Q should be read in conjunction with our consolidated and combined financial statements and notes included in our fiscal 2016 financial statements as filed on Form 8-K on August 11, 2016.

**Basis of Presentation.** Our unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain disclosures and other financial information that are normally required by accounting principles generally accepted in the United States can be condensed or omitted. Our accounting policies are described in the notes to the consolidated and combined financial statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 ("fiscal 2016"). Management is responsible for the condensed consolidated financial statements included in this document, which are unaudited but, in the opinion of management, include all adjustments necessary for a fair presentation of our financial position as of January 1, 2017 and March 31, 2016, our results of operations for the quarters and nine month periods ended January 1, 2017 and January 3, 2016 and our cash flows for the nine months ended January 1, 2017 and January 3, 2016.

**New Accounting Pronouncements.** On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, *Leases*. The new guidance was issued to increase transparency and comparability among companies by requiring most leases be included on the balance sheet and by expanding disclosure requirements. Based on the current effective dates, the new guidance would first apply in the first quarter of our fiscal 2020. We are in the process of evaluating the effect of adoption on our financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and classification in the statement of cash flows. The standard allows for early adoption. As of March 31, 2016, we elected to early adopt this standard and prospectively present the change to the financial statements given the immaterial nature of the prior period balances.

Besides those noted above and in our fiscal 2016 financial statements, there are no other new accounting pronouncements that are expected to have a significant impact on our condensed consolidated financial statements.

**2. Fair Value of Financial Instruments**

The current authoritative guidance on fair value clarifies the definition of fair value, prescribes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about the use of fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The valuation techniques required by the current authoritative literature are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3—Significant inputs to the valuation model are unobservable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

2. Fair Value of Financial Instruments (Continued)

The following section describes the valuation methodologies we used to measure our financial instruments at fair value.

*Long-term debt*—The fair value of the variable-rate long-term debt is calculated based on current market rates for debt of the same risk and maturities. The fair value of the fixed-rate long-term debt is based on market quotes for the outstanding notes. We consider these to be Level 2 instruments.

*Contingent Consideration*—The acquisition-related contingent consideration liability represents the estimated fair value of additional future earn-outs payable for acquisitions of businesses that included earn-out clauses. The valuation of the contingent consideration will be evaluated on an ongoing basis and is based on management estimates and entity-specific assumptions which are considered Level 3 inputs. See Note 4 for further details.

The following table presents our financial assets and liabilities that are not measured at fair value on a recurring basis. The carrying values and estimated fair values were as follows:

|                    | January 1, 2017 |            | March 31, 2016  |            |
|--------------------|-----------------|------------|-----------------|------------|
|                    | Carrying amount | Fair value | Carrying amount | Fair value |
| Fixed-rate debt    | \$ 350,000      | \$ 367,063 | \$ 350,000      | \$ 366,625 |
| Variable-rate debt | 806,000         | 806,000    | 332,500         | 332,500    |

3. Earnings (Loss) Per Share

The computation of earnings (loss) per share ("EPS") includes Basic EPS computed based upon the weighted average number of common shares outstanding for each period. Diluted EPS is computed based on the weighted average number of common shares and common equivalent shares. Common equivalent shares represent the effect of stock-based awards during each period presented, which, if exercised or earned, would have a dilutive effect on EPS.

In computing EPS for the quarters and nine month periods ended January 1, 2017 and January 3, 2016, earnings (loss), as reported for each respective period, is divided by:

| (in thousands)   | Quarter ended   |                 | Nine months ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | January 1, 2017 | January 3, 2016 | January 1, 2017   | January 3, 2016 |
| Basic EPS shares outstanding   | 58,275          | 61,717          | 59,478            | 62,175          |
| Dilutive effect of stock-based awards  | 359             | 375             | 341               | 359             |
| Diluted EPS shares outstanding   | 58,634          | 62,092          | 59,819            | 62,534          |
| Shares excluded from the calculation of diluted EPS because the option exercise/threshold price was greater than the average market price of the common shares | 139             | 68              | 139               | 68              |

*Share Repurchases*

On February 25, 2015, our Board of Directors authorized a share repurchase program of up to \$200,000 worth of shares of our common stock, executable over two years. We completed this program during the nine months ended January 1, 2017. On August 25, 2016, our Board of Directors authorized a new share repurchase program of up to \$100,000 worth of our common stock, executable through March 31, 2018. The shares may be purchased from time to time in open market, block purchase, or negotiated transactions, subject to compliance with applicable laws and regulations. The repurchase authorization also allows us to make repurchases under Rule 10b5-1 of the Securities Exchange Act of 1934. During the quarters ended January 1, 2017 and January 3, 2016, we repurchased 1,559,938 shares for \$59,993 and 1,405,729 shares for \$61,338, respectively. During the nine months ended January 1, 2017 and January 3, 2016, we repurchased 3,095,952 shares for \$126,560 and 2,607,436 shares for \$115,355, respectively. Since the inception of the programs through January 1, 2017, we have repurchased 6,437,038 shares for \$275,630.

Any additional repurchases would be subject to market conditions and our compliance with our debt covenants.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

4. Acquisitions

*Acquisition of Camp Chef*

On September 1, 2016, we completed the acquisition of privately owned Logan Outdoor Products, LLC and Peak Trades, LLC ("Camp Chef"), a leading provider of outdoor cooking solutions. Under the terms of the transaction, we paid \$60,000, subject to customary working capital adjustments, utilizing cash on hand and borrowings under our existing credit facility. An additional \$4,000 has been deferred and will be paid in equal installments on the first, second and third anniversary of the closing date, and \$10,000 will be payable if incremental profitability growth milestones are met and key members of Camp Chef management continue their employment with us. The \$10,000 will be expensed over the three-year measurement period and paid at each milestone date. The preliminary purchase price allocation is subject to further refinement and may require significant adjustments to arrive at the final purchase price allocation. A majority of the goodwill generated in this acquisition will be deductible for tax purposes. Camp Chef is an immaterial acquisition to our company.

*Acquisition of Action Sports*

On April 1, 2016, we completed the acquisition of BRG Sports Inc.'s Action Sports division, operated by Bell Sports Corp. ("Action Sports"). The acquisition includes brands Bell, Giro, Blackburn, CoPilot, Krash, and Raskullz. Under the terms of the transaction, we paid \$400,000, subject to customary working capital adjustments, utilizing cash on hand and borrowings under our existing credit facilities, and additional contingent consideration payable if incremental profitability growth milestones within the Bell Powersports product line are achieved. We determined a value of the future contingent consideration as of the acquisition date of \$4,272 utilizing the Black Scholes option pricing model; the total amount paid may differ from this value. The option pricing model requires us to make assumptions including the risk-free rate, expected volatility, cash flows, and expected life. The risk-free rate is based on U.S. Treasury zero-coupon issues with a remaining term that approximates the expected life assumed at the date of grant. The expected option life is based on the contractual term of the agreement. Expected volatility is based on the average volatility of similar public companies' stock over the past three years. The discounted cash flows are based on our estimates of future performance of the business.

Action Sports remains headquartered in Scotts Valley, California and operates facilities in the U.S., Canada, Europe and Asia. The acquisition of Action Sports includes more than 600 employees worldwide. The preliminary purchase price allocation is subject to further refinement and may require significant adjustments to arrive at the final purchase price allocation. A portion of the goodwill generated in this acquisition will be deductible for tax purposes.

*Acquisition of CamelBak Products*

On August 3, 2015, we completed the acquisition of CamelBak Products, LLC ("CamelBak") for total consideration of \$412,500, subject to a customary working capital adjustment, utilizing cash on hand and borrowings under our existing credit facilities. CamelBak is the leading provider of personal hydration solutions for outdoor, recreation and military use. CamelBak's products include hydration packs, reusable bottles and individual purification and filtration systems. CamelBak has approximately 300 employees worldwide. The purchase price allocation was completed during the quarter ended October 2, 2016. A portion of the goodwill generated in this acquisition will be deductible for tax purposes.

*Acquisition of Jimmy Styks*

On July 20, 2015, we completed the acquisition of Jimmy Styks, LLC ("Jimmy Styks"), using \$40,000 of cash on hand with additional contingent consideration payable if incremental profitability growth milestones are achieved over the next three years. We determined a value of the future contingent consideration as of the acquisition date of \$4,471 utilizing the Black Scholes option pricing model; the total amount paid may differ from this value. The option pricing model requires us to make assumptions including the risk-free rate, expected volatility, cash flows, and expected life. The risk-free rate is based on U.S. Treasury zero-coupon issues with a remaining term that approximates the expected life assumed at the date of grant. The expected option life is based on the contractual term of the agreement. Expected volatility is based on the average volatility of similar public companies' stock over the past three years. The discounted cash flows are based on our estimates of future performance of the business. As of January 1, 2017, the value of the future contingent consideration was \$1,075. The reduction from the original estimate was primarily a result of not achieving the first growth milestone.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

**4. Acquisitions (Continued)**

The purchase price allocation was completed during the quarter ended October 2, 2016. The majority of the goodwill generated in this acquisition will be deductible for tax purposes. Jimmy Styks is an immaterial acquisition to our company.

*Current quarter results for acquisitions*

For the quarter and nine months ended January 1, 2017, Vista Outdoor recorded sales of approximately \$92,134 and \$332,580 and gross profit of approximately \$24,167 and \$98,449, associated with the operations of these acquired businesses for periods in which they were not part of Vista Outdoor in the comparable prior year periods. Vista Outdoor recorded sales of approximately \$41,265 and \$65,636 for the quarter and nine months ended January 3, 2016 and gross profit of approximately \$16,715 and \$25,931 for the quarter and nine months ended January 3, 2016 associated with the operations of these acquired businesses. The results are reflected in the Outdoor Products segment results.

*Bushnell acquisition settlement*

During the nine months ended January 1, 2017, we finalized a settlement of claims that we brought against the previous owner of Bushnell Holdings and third party insurance providers relating to certain disputes arising under the purchase agreement with respect to the acquisition. A settlement was reached in which we received a total of \$30,027 net of current period litigation costs associated with the claims. Separately, in accordance with the purchase agreement, we paid the previous owner for certain tax deductions in the amount of \$7,136, which were taken on the final pre-acquisition income tax return of Bushnell Holdings.

**Allocation of Consideration Transferred to Net Assets Acquired for Action Sports and CamelBak:**

The following amounts represent the preliminary determination of the fair value of identifiable assets acquired and liabilities assumed from the Action Sports acquisition and the final determination for the CamelBak acquisition. The final determination of the fair value of certain assets and liabilities for Action Sports will be completed within the required measurement period, which will be no later than 12 months from the date of acquisition. The size and breadth of the Action Sports acquisition will necessitate the use of this measurement period to adequately analyze and assess a number of the factors used in establishing the asset and liability fair values as of the acquisition date, including the significant contractual and operational factors underlying the trade name and customer relationship intangible assets and the related tax impacts of any changes made. Any potential adjustments made could be material in relation to the preliminary values presented below:

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

## 4. Acquisitions (Continued)

*Action Sports Preliminary Purchase Price Allocation:*

|  | <u>April 1, 2016</u> |
|--|----------------------|
| Purchase price net of cash acquired:                         |                      |
| Cash paid  | \$ 400,000           |
| Estimated earnout value                                      | 4,272                |
| Cash received for working capital                            | <u>(1,289)</u>       |
| Total purchase price   | 402,983              |
| Fair value of assets acquired:                               |                      |
| Receivables  | \$ 79,328            |
| Inventories  | 56,527               |
| Tradename, customer relationship, and technology intangibles | 155,100              |
| Property, plant, and equipment                               | 34,114               |
| Other assets   | <u>6,876</u>         |
| Total assets   | 331,945              |
| Fair value of liabilities assumed:                           |                      |
| Accounts payable   | 30,240               |
| Deferred tax liabilities                                     | 46,500               |
| Other liabilities  | <u>33,168</u>        |
| Total liabilities  | 109,908              |
| Net assets acquired  | <u>222,037</u>       |
| Goodwill   | <u>\$ 180,946</u>    |

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

4. Acquisitions (Continued)

CamelBak Final Purchase Price Allocation:

|  | <u>August 3, 2015</u> |
|--|-----------------------|
| Purchase price net of cash acquired:                         |                       |
| Cash paid  | \$ 412,500            |
| Cash paid for working capital                                | 8,472                 |
| Total purchase price   | <u>420,972</u>        |
| Fair value of assets acquired:                               |                       |
| Receivables  | \$ 30,093             |
| Inventories  | 30,916                |
| Tradename, customer relationship, and technology intangibles | 133,800               |
| Property, plant, and equipment                               | 7,985                 |
| Deferred tax assets  | 5,857                 |
| Other assets   | 4,460                 |
| Total assets   | <u>213,111</u>        |
| Fair value of liabilities assumed:                           |                       |
| Accounts payable   | 8,219                 |
| Other liabilities  | 11,479                |
| Total liabilities  | <u>19,698</u>         |
| Net assets acquired  | <u>193,413</u>        |
| Goodwill   | <u>\$ 227,559</u>     |

Intangible assets above include:

|                             | <u>Value</u> | <u>Useful life (years)</u> |
|-----------------------------|--------------|----------------------------|
| <b>Action Sports</b>        |              |                            |
| Indefinite lived tradenames | \$ 76,700    | Indefinite                 |
| Definite lived tradenames   | 1,400        | 15                         |
| Customer relationships      | 74,700       | 15-20                      |
| Technology                  | 2,300        | 10                         |
| <b>CamelBak</b>             |              |                            |
| Indefinite lived tradename  | \$ 79,400    | Indefinite                 |
| Customer relationships      | 49,400       | 10-20                      |
| Technology                  | 5,000        | 7-17                       |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

4. Acquisitions (Continued)

Supplemental Pro Forma Data for Action Sports and CamelBak:

We used the acquisition method of accounting to account for these acquisitions and, accordingly, the results of Action Sports and CamelBak are included in our consolidated financial statements for the period subsequent to the date of acquisition. The following unaudited supplemental pro forma data for the quarter and nine months ended January 1, 2017 and January 3, 2016 present consolidated information as if the CamelBak acquisition had been completed on April 1, 2014 and the Action Sports acquisition had been completed on April 1, 2015. The pro forma results were calculated by combining our results with the standalone results of Action Sports and CamelBak for the pre-acquisition periods, which were adjusted to account for certain costs which would have been incurred during this pre-acquisition period:

| (Amounts in thousands except per share data) | Quarter ended   |                 | Nine months ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | January 1, 2017 | January 3, 2016 | January 1, 2017   | January 3, 2016 |
| Sales  | \$ 653,558      | \$ 670,771      | \$ 1,968,139      | \$ 1,969,945    |
| Net income (loss)                            | (377,659)       | 46,103          | (273,858)         | 120,845         |
| Basic earnings (loss) per common share       | (6.48)          | 0.75            | (4.60)            | 1.94            |
| Diluted earnings (loss) per common share     | (6.44)          | 0.74            | (4.58)            | 1.93            |

The unaudited supplemental pro forma data above include the following significant non-recurring adjustments made to account for certain costs which would have been incurred if the CamelBak acquisition had been completed on April 1, 2014 and the Action Sports acquisition had been completed on April 1, 2015, as adjusted for the applicable tax impact:

|  | Quarter ended   |                 | Nine months ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | January 1, 2017 | January 3, 2016 | January 1, 2017   | January 3, 2016 |
| Inventory step-up, net <sup>(1)</sup>                        | \$ —            | \$ (313)        | \$ (502)          | \$ (145)        |
| Fees for advisory, legal, accounting services <sup>(2)</sup> | —               | (56)            | (946)             | (3,331)         |

- (1) Adjustment reflects the increased cost of goods sold expense resulting from the fair value step-up in inventory of \$817 for Action Sports and \$1,043 for CamelBak which was expensed over the first inventory cycle.
- (2) We removed the fees that were incurred in connection with the acquisition of Action Sports from fiscal 2017 and considered those fees as incurred during the first quarter of fiscal 2016. Costs were recorded in Selling, general, and administrative expense. We have incurred total of \$2,837 in fees in connection with the acquisition of Action Sports during fiscal 2016 and 2017. We removed the fees that were incurred in connection with the acquisition of CamelBak from fiscal 2016 and considered those fees as incurred during the first quarter of fiscal 2015.

5. Net Receivables

Net receivables are summarized as follows:

|   | January 1, 2017 | March 31, 2016 |
|---|-----------------|----------------|
| Trade receivables                                   | \$ 553,932      | \$ 446,032     |
| Other receivables                                   | 3,023           | 1,778          |
| Less: allowance for doubtful accounts and discounts | (23,621)        | (19,412)       |
| Net receivables                                     | \$ 533,334      | \$ 428,398     |

One customer represented 12% and 13% of the total trade receivables balance as of January 1, 2017 and March 31, 2016, respectively.



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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

**6. Net Inventories**

Net inventories consist of the following:

|                 | January 1, 2017   | March 31, 2016    |
|-----------------|-------------------|-------------------|
| Raw materials   | \$ 116,220        | \$ 91,898         |
| Work in process | 58,468            | 61,864            |
| Finished goods  | 410,428           | 286,478           |
| Net inventories | <u>\$ 585,116</u> | <u>\$ 440,240</u> |

**7. Accumulated Other Comprehensive Loss**

The components of AOCL, net of income taxes, are as follows:

|   | January 1, 2017     | March 31, 2016      |
|---|---------------------|---------------------|
| Pension and other postretirement benefits | \$ (60,781)         | \$ (63,667)         |
| Cumulative translation adjustment         | (61,802)            | (46,547)            |
| Total AOCL                                | <u>\$ (122,583)</u> | <u>\$ (110,214)</u> |

The following tables summarize the changes in the balance of AOCL, net of income tax:

|  | Quarter ended January 1, 2017                   |   |                     | Nine months ended January 1, 2017               |   |                     |
|--|---|---|---------------------|---|---|---------------------|
|  | Pension and other<br>postretirement<br>benefits | Cumulative<br>translation<br>adjustment | Total               | Pension and other<br>postretirement<br>benefits | Cumulative<br>translation<br>adjustment | Total               |
| Beginning balance in AOCL                                  | \$ (61,743)                                     | \$ (51,091)                             | \$ (112,834)        | \$ (63,667)                                     | \$ (46,547)                             | \$ (110,214)        |
| Net actuarial losses reclassified from AOCL <sup>(1)</sup> | 1,236   | —                                       | 1,236               | 3,708   | —                                       | 3,708               |
| Prior service costs reclassified from AOCL <sup>(1)</sup>  | (274)   | —                                       | (274)               | (822)   | —                                       | (822)               |
| Net change in cumulative translation adjustment            | —   | (10,711)                                | (10,711)            | —   | (15,255)                                | (15,255)            |
| Ending balance in AOCL                                     | <u>\$ (60,781)</u>                              | <u>\$ (61,802)</u>                      | <u>\$ (122,583)</u> | <u>\$ (60,781)</u>                              | <u>\$ (61,802)</u>                      | <u>\$ (122,583)</u> |

(1) Amounts related to our pension and other postretirement benefits that were reclassified from AOCL were recorded as a component of net periodic benefit cost for each period presented.

|  | Quarter ended January 3, 2016 |  |   |                     | Nine months ended January 3, 2016 |  |   |                     |
|--|-------------------------------|--|---|---------------------|-----------------------------------|--|---|---------------------|
|  | Derivatives                   | Pension and<br>other<br>postretirement<br>benefits | Cumulative<br>translation<br>adjustment | Total               | Derivatives                       | Pension and<br>other<br>postretirement<br>benefits | Cumulative<br>translation<br>adjustment | Total               |
| Beginning balance in AOCL  | \$ 86                         | \$ (55,927)  | \$ (56,197)                             | \$ (112,038)        | \$ —                              | \$ (58,155)  | \$ (52,148)                             | \$ (110,303)        |
| Net increase in fair value of derivatives  | 114                           | —  | —                                       | 114                 | 232                               | —  | —                                       | 232                 |
| Net losses reclassified from AOCL, offsetting the price paid to suppliers <sup>(1)</sup> | (117)                         | —  | —                                       | (117)               | (149)                             | —  | —                                       | (149)               |
| Net actuarial losses reclassified from AOCL <sup>(2)</sup>                               | —                             | 1,381  | —                                       | 1,381               | —                                 | 4,143  | —                                       | 4,143               |
| Prior service costs reclassified from AOCL <sup>(2)</sup>                                | —                             | (267)  | —                                       | (267)               | —                                 | (801)  | —                                       | (801)               |
| Net change in cumulative translation adjustment  | —                             | —  | (788)                                   | (788)               | —                                 | —  | (4,837)                                 | (4,837)             |
| Ending balance in AOCL   | <u>\$ 83</u>                  | <u>\$ (54,813)</u>                                 | <u>\$ (56,985)</u>                      | <u>\$ (111,715)</u> | <u>\$ 83</u>                      | <u>\$ (54,813)</u>                                 | <u>\$ (56,985)</u>                      | <u>\$ (111,715)</u> |

(1) Amounts related to our derivative instruments that were reclassified from AOCL and recorded as a component of cost of sales.

(2) Amounts related to our pension and other postretirement benefits that were reclassified from AOCL were recorded as a component of net periodic benefit cost for each period presented.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

8. Goodwill and Net Intangible Assets

The changes in the carrying amount of goodwill by segment were as follows:

|   | Outdoor<br>Products | Shooting<br>Sports | Total             |
|---|---------------------|--------------------|-------------------|
| Balance, March 31, 2016                   | \$ 818,560          | \$ 204,891         | \$ 1,023,451      |
| Acquisitions                              | 192,820             | —                  | 192,820           |
| Impairment                                | (353,915)           | —                  | (353,915)         |
| Effect of foreign currency exchange rates | (6,941)             | (200)              | (7,141)           |
| Balance, January 1, 2017                  | <u>\$ 650,524</u>   | <u>\$ 204,691</u>  | <u>\$ 855,215</u> |

The acquisitions in Outdoor Products related to the preliminary purchase price allocations for Action Sports and Camp Chef as previously discussed.

A challenging retail environment and other market pressures resulted in deeper discounting of Vista Outdoor's accessories products during the quarter ending January 1, 2017. The deeper discounting caused a reduction in the projected cash flows of the Hunting and Shooting Accessories reporting unit. Given this drop in projected cash flows and a continued challenging retail environment, we determined a triggering event had occurred. The triggering event indicated it was more likely than not that the fair value of the reporting unit was less than the book value of the reporting unit. The fair value of the reporting unit is determined using both an income and market approach. The value estimated using a discounted cash flow model is weighted against the estimated value, which is derived from the guideline company market approach method. This market approach method estimates the price reasonably expected to be realized from the sale of the company based on comparable companies.

The goodwill recorded within the Outdoor Products segment above is presented net of \$353,915 in current period impairment losses. In addition, as a result of the factors noted above, we evaluated the fair value of the other intangibles assets as well. We determined the fair value of the trade names and technology based on the relief of royalty method and used royalty rates in a range of .5% to 5% for the trade names and a royalty rate of .5% on technologies based on public guideline royalty-based transactions and profitability and a discount rate of 9.5%. This analysis resulted in a \$34,230 non-cash impairment charge on non-amortizing trade names related primarily to the Bushnell trade name. The analysis also resulted in a \$61,054 non-cash impairment charge related to a number of amortizing trade name and technology intangibles associated with the Bushnell acquisition completed in fiscal 2014 and the Blackhawk tradename. The remeasurement of goodwill and intangible assets is classified as a Level 3 fair value assessment as described in Note 2 due to the significance of unobservable inputs developed using company-specific information.

The goodwill recorded within the Outdoor Products and Shooting Sports segments are presented net of \$47,791 and \$41,020 of accumulated impairment losses, respectively, recorded prior to March 31, 2016.

Net intangibles consisted of the following:

|                                  | January 1, 2017             |                             |                   | March 31, 2016              |                             |                   |
|----------------------------------|-----------------------------|-----------------------------|-------------------|-----------------------------|-----------------------------|-------------------|
|                                  | Gross<br>carrying<br>amount | Accumulated<br>amortization | Total             | Gross<br>carrying<br>amount | Accumulated<br>amortization | Total             |
| Trade names                      | \$ 106,159                  | \$ (15,110)                 | \$ 91,049         | \$ 185,162                  | \$ (46,812)                 | \$ 138,350        |
| Patented technology              | 19,066                      | (7,470)                     | 11,596            | 27,900                      | (9,949)                     | 17,951            |
| Customer relationships and other | 370,326                     | (70,773)                    | 299,553           | 272,431                     | (50,757)                    | 221,674           |
| Total                            | 495,551                     | (93,353)                    | 402,198           | 485,493                     | (107,518)                   | 377,975           |
| Non-amortizing trade names       | 314,967                     | —                           | 314,967           | 272,497                     | —                           | 272,497           |
| Net intangibles                  | <u>\$ 810,518</u>           | <u>\$ (93,353)</u>          | <u>\$ 717,165</u> | <u>\$ 757,990</u>           | <u>\$ (107,518)</u>         | <u>\$ 650,472</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

8. Goodwill and Net Intangible Assets (Continued)

The gross amount of amortizing and non-amortizing intangible assets increased from March 31, 2016 due to the acquisitions of Action Sports and Camp Chef partially offset by the impairments noted above. The assets in the table above are being amortized using a straight-line method over a weighted average remaining period of approximately 13.0 years. Amortization expense for the quarters and nine month periods ended January 1, 2017 and January 3, 2016 was \$10,627 and \$8,951 and \$31,020 and \$24,602, respectively. We expect amortization expense related to these assets to be as follows:

|                          |    |                |
|--------------------------|----|----------------|
| Remainder of fiscal 2017 | \$ | 9,204          |
| Fiscal 2018              |    | 36,816         |
| Fiscal 2019              |    | 34,072         |
| Fiscal 2020              |    | 33,245         |
| Fiscal 2021              |    | 33,229         |
| Thereafter               |    | 255,632        |
| Total                    | \$ | <u>402,198</u> |

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

**9. Other Current and Non-current Liabilities**

Other current and non-current liabilities consisted of the following:

|  | January 1, 2017   | March 31, 2016    |
|--|-------------------|-------------------|
| Other current liabilities:                           |                   |                   |
| In-transit inventory and other                       | \$ 82,962         | \$ 40,242         |
| Rebate   | 46,501            | 17,957            |
| Accrued advertising                                  | 15,424            | 10,315            |
| Employee benefits and insurance                      | 12,221            | 11,131            |
| Warranty   | 9,117             | 8,611             |
| Interest   | 5,559             | 13,157            |
| Customer obligations                                 | 2,975             | 9,613             |
| Freight accrual                                      | 2,499             | 2,446             |
| Accrued taxes  | 2,350             | 1,303             |
| Product liability                                    | 1,813             | 1,622             |
| Total other current liabilities                      | <u>\$ 181,421</u> | <u>\$ 116,397</u> |
| Other non-current liabilities:                       |                   |                   |
| Non-current portion of accrued income tax liability  | \$ 27,097         | \$ 25,421         |
| Contingent consideration and deferred purchase price | 8,044             | 4,471             |
| Product liability                                    | 4,193             | —                 |
| Management non-qualified deferred compensation plan  | 3,185             | 2,668             |
| Environmental remediation                            | 740               | 745               |
| Other  | 21,472            | 18,014            |
| Total other non-current liabilities                  | <u>\$ 64,731</u>  | <u>\$ 51,319</u>  |

We provide consumer warranties against manufacturing defects on certain products within the Outdoor Products and Shooting Sports segments with warranty periods ranging typically from one year to a lifetime. The estimated costs of such product warranties are recorded at the time the sale is recorded based upon actual past experience, our current production environment as well as specific and identifiable warranties as applicable. The warranty liability recorded at each balance sheet date reflects the estimated liability for warranty coverage for products delivered based on historical information and current trends. The following is a reconciliation of the changes in our product warranty liability during the period presented:

|   |                 |
|---|-----------------|
| Balance, March 31, 2016                   | \$ 8,611        |
| Payments made                             | (2,992)         |
| Warranties issued                         | 2,575           |
| Warranties assumed in acquisition         | 1,159           |
| Changes related to preexisting warranties | (236)           |
| Balance, January 1, 2017                  | <u>\$ 9,117</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data and unless otherwise indicated)

**10. Long-term Debt**

Long-term debt, including the current portion, consisted of the following:

|  | January 1, 2017   | March 31, 2016    |
|--|-------------------|-------------------|
| Senior Credit Facility:                                      |                   |                   |
| Term Loan  | \$ 616,000        | \$ 332,500        |
| Revolving Credit Facility                                    | 190,000           | —                 |
| Total principal amount of Credit Agreement                   | 806,000           | 332,500           |
| 5.875% Senior Notes due 2023                                 | 350,000           | 350,000           |
| Principal amount of long-term debt                           | 1,156,000         | 682,500           |
| Less: unamortized deferred financing costs                   | 12,399            | 12,213            |
| Carrying amount of long-term debt                            | 1,143,601         | 670,287           |
| Less: current portion  | 222,000           | 17,500            |
| Carrying amount of long-term debt, excluding current portion | <u>\$ 921,601</u> | <u>\$ 652,787</u> |

*Credit Agreement*

On April 1, 2016, we entered into an Amended and Restated Credit Agreement (the "2016 Credit Agreement"), which replaced our 2014 Credit Agreement. The 2016 Credit Agreement is comprised of a Term A Loan of \$640,000 and a \$400,000 Revolving Credit Facility, both of which mature on April 1, 2021. The Term A Loan is subject to quarterly principal payments of \$8,000, with the remaining balance due on April 1, 2021. Borrowings under the 2016 Credit Agreement bear interest at a rate equal to either the sum of a base rate plus a specified margin or the sum of a Eurodollar rate plus a specified margin. Each margin is based on our consolidated leverage ratio, as defined in the 2016 Credit Agreement. Based on the ratio in effect as of January 1, 2017, the base rate margin was 0.75% and the Eurodollar margin was 1.75%. The weighted average interest rate for our borrowings under the 2016 Credit Agreement as of January 1, 2017 was 2.41%. We pay a commitment fee on the unused portion of the Revolving Credit Facility based on our consolidated leverage ratio, and based on the current ratio, this fee is 0.30%. As of January 1, 2017, we had \$190,000 in borrowings against our \$400,000 Revolving Credit Facility and had outstanding letters of credit of \$26,015, which reduced amounts available on the Revolving Credit Facility to \$183,985.

With the exception of assets owned by the legal entities operating the Camp Chef business, substantially all domestic tangible and intangible assets of Vista Outdoor and its subsidiaries, as well as the tangible and intangible assets of Advanced Arrow S. de R.L. de C.V. and Hydrosport, S. de R.L. de C.V., are pledged as collateral under the 2016 Credit Agreement. The domestic tangible and intangible assets of Camp Chef are expected to be pledged as collateral during fiscal 2017. Debt issuance costs of approximately \$12,000 are being amortized over the term of the 2016 Credit Agreement.

In fiscal 2014, we entered into a credit agreement (the "2014 Credit Agreement"), which was comprised of a Term A Loan of \$350,000 and a Revolving Credit Facility of \$400,000, both of which were to mature on February 9, 2020. During the quarter ended July 3, 2016, we refinanced this agreement as noted above. In connection with this transaction, we wrote off \$1,521 of unamortized deferred debt issuance costs in the nine months ended January 1, 2017.

*5.875% Notes*

On August 11, 2015, we issued \$350,000 aggregate principal amount of 5.875% Senior Notes (the "5.875% Notes") that mature on October 1, 2023. These notes are unsecured and senior obligations. Interest on these notes is payable semi-annually in arrears on April 1 and October 1 of each year, starting on April 1, 2016. We have the right to redeem some or all of these notes from time to time on or after October 1, 2018, at specified redemption prices. Prior to October 1, 2018, we may redeem some or all of these notes at a price equal to 100% of their principal amount plus accrued and unpaid interest to the date of redemption and a specified make-whole premium. In addition, prior to October 1, 2018, we may redeem up to 35% of the aggregate principal amount of these notes with the net cash proceeds of certain equity offerings, at a price equal to 105.875% of their principal amount plus accrued and unpaid interest to the date of redemption. Debt issuance costs of approximately \$4,300 are being amortized to interest expense over 8 years, the term of the notes.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

(Amounts in thousands except share and per share data unless otherwise indicated)

**10. Long-term Debt (Continued)**

*Rank and Guarantees*

The 2016 Credit Agreement obligations are guaranteed on a secured basis, jointly and severally and fully and unconditionally by substantially all of our domestic subsidiaries, with the exception of the legal entities operating the Camp Chef business, and by Advanced Arrow S. de R.L. de C.V. and Hydrosport, S. de R.L. de C.V.. Vista Outdoor (the parent company issuer) has no independent assets or operations. We own 100% of all of these guarantor subsidiaries. The 5.875% Notes are senior unsecured obligations and will rank equally in right of payment with any future senior unsecured indebtedness and senior in right of payment to any future subordinated indebtedness. The 5.875% Notes are fully and unconditionally guaranteed, jointly and severally, by our existing and future domestic subsidiaries that guarantee indebtedness under our 2016 Credit Agreement or that guarantee certain of our other indebtedness, or indebtedness of any subsidiary guarantor, in an aggregate principal amount in excess of \$50,000. These guarantees are senior unsecured obligations of the applicable subsidiary guarantors. The guarantee by any subsidiary guarantor of our obligations in respect of the 5.875% Notes will be released in any of the following circumstances:

- if, as a result of the sale of its capital stock, such subsidiary guarantor ceases to be a restricted subsidiary;
- if such subsidiary guarantor is designated as an “Unrestricted Subsidiary;”
- upon defeasance or satisfaction and discharge of the 5.875% Notes; or
- if such subsidiary guarantor has been released from its guarantees of indebtedness under the 2016 Credit Agreement and all capital markets debt securities.

The guarantee by any subsidiary guarantor of our obligations in respect of the 2016 Credit Agreement will be released in any of the following circumstances:

- if, as a result of the sale of its capital stock, such subsidiary guarantor ceases to be a subsidiary;
- if such subsidiary guarantor ceases to be a Domestic Subsidiary; or
- upon repayment of all obligations under the 2016 Credit Agreement.

*Cash Paid for Interest on Debt*

Cash paid for interest on debt, including commitment fees, for the nine months ended January 1, 2017 and January 3, 2016 totaled \$15,034 and \$6,387, respectively.

**11. Employee Benefit Plans**

The total expense for employee benefit plans for the quarter and nine months ended January 1, 2017 and January 3, 2016 was \$1,690 and \$1,825, and \$5,072 and \$5,475 respectively.

*Employer Contributions.* During the nine months ended January 1, 2017, we made the legally required minimum contribution of \$4,400 directly to the pension trust, and no contributions to our other postretirement benefit plans. We made distributions of \$10 directly to retirees under the non-qualified supplemental executive retirement plan. During the nine months ended January 3, 2016, we contributed \$2,000 directly to the pension trust, made no contributions to our other postretirement benefit plans, and made no distributions to retirees under the non-qualified supplemental executive retirement plan. There are no additional contributions expected to be made directly to the pension trust and we expect to contribute approximately \$174 to our other postretirement benefit plans, and distribute approximately \$688 directly to retirees under our non-qualified supplemental executive retirement plans during the remainder of fiscal 2017.

**12. Income Taxes**

Our provision for income taxes includes federal, foreign, and state income taxes. Income tax provisions for interim periods are based on estimated effective annual income tax rates.

The income tax provisions for the quarters ended January 1, 2017 and January 3, 2016 represent effective tax rates of 4.4% and 36.0%, respectively. The change in the rate from the prior year quarter is primarily caused by the goodwill impairment charge in the current quarter that is nondeductible for tax purposes.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

(Amounts in thousands except share and per share data unless otherwise indicated)

**12. Income Taxes (Continued)**

The income tax provision for the nine months ended January 1, 2017 and January 3, 2016 represent effective tax rates of (8.5)% and 38.4%, respectively. The decrease in the rate from the prior year period is primarily caused by the nondeductible goodwill impairment charge partially offset by a nontaxable acquisition claim settlement gain.

The 4.4% effective tax rate for the quarter ended January 1, 2017 differs from the statutory federal income tax rate of 35% primarily as a result of the nondeductible goodwill impairment charge. The (8.5)% effective tax rate for the nine months ended January 1, 2017 differs from the statutory federal income tax rate of 35% primarily as a result of the nondeductible goodwill impairment charge partially offset by the nontaxable treatment of the acquisition claim settlement gain related to the Bushnell acquisition.

We entered into a Tax Matters Agreement with Orbital ATK that governs the respective rights, responsibilities and obligations of Vista Outdoor and Orbital ATK after the distribution of all of the shares of our common stock on a pro rata basis to the holders of Alliant Techsystems Inc. common stock (the "Spin-Off") with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. federal, state, local and foreign income taxes, other tax matters and related tax returns. We have joint and several liability with Orbital ATK to the IRS for the consolidated U.S. federal income taxes of the Orbital ATK consolidated group relating to the taxable periods in which we were part of that group. However, the Tax Matters Agreement specifies the portion, if any, of this tax liability for which we bear responsibility, and Orbital ATK agrees to indemnify us against any amounts for which we are not responsible. The Tax Matters Agreement also provides special rules for allocating tax liabilities in the event that the Spin-Off is determined not to be tax-free. Though valid as between the parties, the Tax Matters Agreement is not binding on the IRS.

Prior to the Spin-Off, Orbital ATK or one of its subsidiaries filed income tax returns in the U.S. federal and various U.S. state jurisdictions which included Vista Outdoor. In addition, certain of our subsidiaries filed income tax returns in foreign jurisdictions. After the Spin-Off we are filing income tax returns in the U.S. federal, foreign and various U.S. state jurisdictions. With a few exceptions, Orbital ATK and its subsidiaries and Vista are no longer subject to U.S. federal, state and local, or foreign income tax examinations by tax authorities prior to 2009. The IRS has completed the audits of Orbital ATK through fiscal 2014 and is currently auditing Orbital ATK for fiscal 2015. The IRS is currently auditing our tax return for the period that begins after the Spin-Off (February 9, 2015) and ends on March 31, 2015. We believe appropriate provisions for all outstanding issues relating to our portion of these returns have been made for all remaining open years in all jurisdictions.

Although the timing and outcome of audit settlements are uncertain, it is reasonably possible that a \$2,512 reduction of the uncertain tax benefits will occur in the next 12 months. The settlement of these unrecognized tax benefits could result in earnings from \$0 to \$1,726.

**13. Contingencies**

*Litigation.* From time to time, we are subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of our business. We do not consider any of such proceedings that are currently pending, individually or in the aggregate, to be material to our business or likely to result in a material adverse effect on our operating results, financial condition, or cash flows.

*Environmental Liabilities.* Our operations and ownership or use of real property are subject to a number of federal, state, and local environmental laws and regulations, as well as applicable foreign laws and regulations, including those governing the discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment. We are obligated to conduct investigation and/or remediation activities at certain sites that we own or operate or formerly owned or operated.

We also have been identified as a potentially responsible party ("PRP"), along with other parties, in a regulatory agency action associated with hazardous waste sites. As a PRP, we may be required to pay a share of the costs of the investigation and clean-up of these sites. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our operating results, financial condition, or cash flows. We have recorded a liability for environmental remediation of \$765 as of January 1, 2017 and March 31, 2016.

We could incur substantial additional costs, including cleanup costs, resource restoration, fines, and penalties or third-party property damage or personal injury claims, as a result of violations or liabilities under environmental laws or non-compliance with environmental permits. While environmental laws and regulations have not had a material adverse effect on



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

(Amounts in thousands except share and per share data and unless otherwise indicated)

**13. Contingencies (Continued)**

our operating results, financial condition, or cash flows in the past, and we have environmental management programs in place to mitigate these risks, it is difficult to predict whether they will have a material impact in the future.

**14. Condensed Consolidating Financial Statements**

The 5.875% Notes are guaranteed on an unsecured basis, jointly and severally and fully and unconditionally by substantially all of our domestic subsidiaries with the exception of the legal entities operating the Camp Chef business, and by Advanced Arrow S. de R.L. de C.V. and Hydrosport, S. de R.L. de C.V.

The parent company has no independent assets or operations. All of these guarantor subsidiaries are 100% owned by Vista Outdoor. These guarantees are senior or senior subordinated obligations, as applicable, of the applicable subsidiary guarantors. In conjunction with the registration of the 5.875% Notes the consolidating financial information of the guarantor and non-guarantor subsidiaries is presented on the following pages.

The guarantee by any subsidiary guarantor of our obligations in respect of the 5.875% Notes will be released in any of the following circumstances:

- if, as a result of the sale of its capital stock, such subsidiary guarantor ceases to be a restricted subsidiary;
- if such subsidiary guarantor is designated as an “Unrestricted Subsidiary;”
- upon defeasance or satisfaction and discharge of the 5.875% Notes; or
- if such subsidiary guarantor has been released from its guarantees of indebtedness under the Credit Agreement and all capital markets debt securities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**  
(unaudited)

| (Amounts in thousands)                         | Quarter ended January 1, 2017 |                     |                   |                   |                     |
|--|-------------------------------|---------------------|-------------------|-------------------|---------------------|
|  | Parent Issuer                 | Guarantors          | Non-Guarantors    | Eliminations      | Consolidated        |
| Sales, net                                     | \$ —                          | \$ 619,140          | \$ 69,504         | \$ (35,086)       | \$ 653,558          |
| Cost of sales                                  | —                             | 469,600             | 49,804            | (34,452)          | 484,952             |
| Gross profit                                   | —                             | 149,540             | 19,700            | (634)             | 168,606             |
| Operating expenses:                            |                               |                     |                   |                   |                     |
| Research and development                       | —                             | 8,020               | 150               | —                 | 8,170               |
| Selling, general, and administrative           | —                             | 80,748              | 15,145            | —                 | 95,893              |
| Goodwill and intangibles impairment            | —                             | 449,199             | —                 | —                 | 449,199             |
| Income (loss) before interest and income taxes | —                             | (388,427)           | 4,405             | (634)             | (384,656)           |
| Equity in income of subsidiaries               | (371,067)                     | 2,179               | —                 | 368,888           | —                   |
| Interest expense, net                          | (10,551)                      | —                   | —                 | —                 | (10,551)            |
| Income (loss) before income taxes              | (381,618)                     | (386,248)           | 4,405             | 368,254           | (395,207)           |
| Income tax provision (benefit)                 | (3,959)                       | (15,181)            | 1,838             | (246)             | (17,548)            |
| Net income (loss)                              | <u>\$ (377,659)</u>           | <u>\$ (371,067)</u> | <u>\$ 2,567</u>   | <u>\$ 368,500</u> | <u>\$ (377,659)</u> |
| Other comprehensive income (loss), net of tax: |                               |                     |                   |                   |                     |
| Net income (loss) (from above)                 | \$ (377,659)                  | \$ (371,067)        | \$ 2,567          | \$ 368,500        | \$ (377,659)        |
| Total other comprehensive loss                 | (9,749)                       | (9,749)             | (10,711)          | 20,460            | (9,749)             |
| Comprehensive income (loss)                    | <u>\$ (387,408)</u>           | <u>\$ (380,816)</u> | <u>\$ (8,144)</u> | <u>\$ 388,960</u> | <u>\$ (387,408)</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(unaudited)

| (Amounts in thousands)                  | Quarter ended January 3, 2016 |            |                |              |              |
|---|-------------------------------|------------|----------------|--------------|--------------|
|   | Parent Issuer                 | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| Sales, net                              | \$ —                          | \$ 561,252 | \$ 56,594      | \$ (25,289)  | \$ 592,557   |
| Cost of sales                           | —                             | 414,422    | 36,393         | (25,762)     | 425,053      |
| Gross profit                            | —                             | 146,830    | 20,201         | 473          | 167,504      |
| Operating expenses:                     |                               |            |                |              |              |
| Research and development                | —                             | 3,681      | —              | —            | 3,681        |
| Selling, general, and administrative    | —                             | 75,628     | 12,963         | —            | 88,591       |
| Income before interest and income taxes | —                             | 67,521     | 7,238          | 473          | 75,232       |
| Equity in income of subsidiaries        | 48,017                        | 5,653      | —              | (53,670)     | —            |
| Interest expense, net                   | (7,776)                       | —          | —              | —            | (7,776)      |
| Income before income taxes              | 40,241                        | 73,174     | 7,238          | (53,197)     | 67,456       |
| Income tax provision (benefit)          | (2,918)                       | 25,157     | 1,876          | 182          | 24,297       |
| Net income                              | \$ 43,159                     | \$ 48,017  | \$ 5,362       | \$ (53,379)  | \$ 43,159    |
| Other comprehensive income, net of tax: |                               |            |                |              |              |
| Net income (from above)                 | \$ 43,159                     | \$ 48,017  | \$ 5,362       | \$ (53,379)  | \$ 43,159    |
| Total other comprehensive income (loss) | 323                           | 323        | (788)          | 465          | 323          |
| Comprehensive income                    | \$ 43,482                     | \$ 48,340  | \$ 4,574       | \$ (52,914)  | \$ 43,482    |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**  
(unaudited)

| (Amounts in thousands)                         | Nine months ended January 1, 2017 |              |                |              |              |
|--|-----------------------------------|--------------|----------------|--------------|--------------|
|  | Parent Issuer                     | Guarantors   | Non-Guarantors | Eliminations | Consolidated |
| Sales, net                                     | \$ —                              | \$ 1,872,948 | \$ 184,763     | \$ (89,572)  | \$ 1,968,139 |
| Cost of sales                                  | —                                 | 1,407,821    | 123,601        | (88,675)     | 1,442,747    |
| Gross profit                                   | —                                 | 465,127      | 61,162         | (897)        | 525,392      |
| Operating expenses:                            |                                   |              |                |              |              |
| Research and development                       | —                                 | 23,957       | 194            | —            | 24,151       |
| Selling, general, and administrative           | —                                 | 258,027      | 45,033         | —            | 303,060      |
| Acquisition claim settlement gain, net         | (30,027)                          | —            | —              | —            | (30,027)     |
| Goodwill and intangibles impairment            | —                                 | 449,199      | —              | —            | 449,199      |
| Income (loss) before interest and income taxes | 30,027                            | (266,056)    | 15,935         | (897)        | (220,991)    |
| Equity in income of subsidiaries               | (284,930)                         | 9,433        | —              | 275,497      | —            |
| Interest expense, net                          | (32,657)                          | —            | —              | —            | (32,657)     |
| Income (loss) before income taxes              | (287,560)                         | (256,623)    | 15,935         | 274,600      | (253,648)    |
| Income tax provision (benefit)                 | (12,249)                          | 28,307       | 5,936          | (331)        | 21,663       |
| Net income (loss)                              | \$ (275,311)                      | \$ (284,930) | \$ 9,999       | \$ 274,931   | \$ (275,311) |
| Other comprehensive (loss) income, net of tax: |                                   |              |                |              |              |
| Net income (loss)(from above)                  | \$ (275,311)                      | \$ (284,930) | \$ 9,999       | \$ 274,931   | \$ (275,311) |
| Total other comprehensive loss                 | (12,369)                          | (12,369)     | (15,255)       | 27,624       | (12,369)     |
| Comprehensive loss                             | \$ (287,680)                      | \$ (297,299) | \$ (5,256)     | \$ 302,555   | \$ (287,680) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(unaudited)

| (Amounts in thousands)                  | Nine months ended January 3, 2016 |                   |                  |                     |                   |
|---|-----------------------------------|-------------------|------------------|---------------------|-------------------|
|   | Parent Issuer                     | Guarantors        | Non-Guarantors   | Eliminations        | Consolidated      |
| Sales, net                              | \$ —                              | \$ 1,566,650      | \$ 170,755       | \$ (78,974)         | \$ 1,658,431      |
| Cost of sales                           | —                                 | 1,168,477         | 113,943          | (79,809)            | 1,202,611         |
| Gross profit                            | —                                 | 398,173           | 56,812           | 835                 | 455,820           |
| Operating expenses:                     |                                   |                   |                  |                     |                   |
| Research and development                | —                                 | 8,851             | —                | —                   | 8,851             |
| Selling, general, and administrative    | —                                 | 212,122           | 39,889           | —                   | 252,011           |
| Income before interest and income taxes | —                                 | 177,200           | 16,923           | 835                 | 194,958           |
| Equity in income of subsidiaries        | 120,291                           | 12,791            | —                | (133,082)           | —                 |
| Interest expense, net                   | (16,908)                          | —                 | —                | —                   | (16,908)          |
| Income before income taxes              | 103,383                           | 189,991           | 16,923           | (132,247)           | 178,050           |
| Income tax provision (benefit)          | (6,341)                           | 69,700            | 4,642            | 325                 | 68,326            |
| Net income                              | <u>\$ 109,724</u>                 | <u>\$ 120,291</u> | <u>\$ 12,281</u> | <u>\$ (132,572)</u> | <u>\$ 109,724</u> |
| Other comprehensive income, net of tax: |                                   |                   |                  |                     |                   |
| Net income (from above)                 | \$ 109,724                        | \$ 120,291        | \$ 12,281        | \$ (132,572)        | \$ 109,724        |
| Total other comprehensive loss          | (1,412)                           | (1,412)           | (4,837)          | 6,249               | (1,412)           |
| Comprehensive income                    | <u>\$ 108,312</u>                 | <u>\$ 118,879</u> | <u>\$ 7,444</u>  | <u>\$ (126,323)</u> | <u>\$ 108,312</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

VISTA OUTDOOR INC.  
CONDENSED CONSOLIDATED BALANCE SHEET  
(unaudited)

| (Amounts in thousands)                         | January 1, 2017 |              |                |                |              |
|--|-----------------|--------------|----------------|----------------|--------------|
|  | Parent Issuer   | Guarantors   | Non-Guarantors | Eliminations   | Consolidated |
| <b>ASSETS</b>                                  |                 |              |                |                |              |
| Current assets:                                |                 |              |                |                |              |
| Cash and cash equivalents                      | \$ —            | \$ 14,605    | \$ 26,236      | \$ —           | \$ 40,841    |
| Net receivables                                | —               | 484,318      | 49,016         | —              | 533,334      |
| Due from affiliates, current                   | —               | 8,913        | —              | (8,913)        | —            |
| Net inventories                                | —               | 528,045      | 62,262         | (5,191)        | 585,116      |
| Income tax receivable                          | —               | 8,070        | 834            | —              | 8,904        |
| Other current assets                           | —               | 25,120       | 3,323          | —              | 28,443       |
| Total current assets                           | —               | 1,069,071    | 141,671        | (14,104)       | 1,196,638    |
| Net property, plant, and equipment             | —               | 237,997      | 9,718          | —              | 247,715      |
| Investment in subsidiaries                     | 2,701,872       | 53,672       | —              | (2,755,544)    | —            |
| Goodwill                                       | —               | 737,533      | 117,682        | —              | 855,215      |
| Net intangible assets                          | —               | 646,048      | 71,117         | —              | 717,165      |
| Long-term due from affiliates                  | —               | 340,653      | —              | (340,653)      | —            |
| Deferred charges and other non-current assets  | —               | 19,070       | 8,362          | —              | 27,432       |
| Total assets                                   | \$ 2,701,872    | \$ 3,104,044 | \$ 348,550     | \$ (3,110,301) | \$ 3,044,165 |
| <b>LIABILITIES AND EQUITY</b>                  |                 |              |                |                |              |
| Current liabilities:                           |                 |              |                |                |              |
| Current portion of long-term debt              | \$ 222,000      | \$ —         | \$ —           | \$ —           | \$ 222,000   |
| Accounts payable                               | —               | 89,683       | 13,221         | —              | 102,904      |
| Due to affiliates, current                     | —               | —            | 8,913          | (8,913)        | —            |
| Accrued compensation                           | —               | 36,926       | 2,997          | —              | 39,923       |
| Federal excise tax                             | —               | 30,482       | 714            | —              | 31,196       |
| Other current liabilities                      | —               | 170,273      | 11,148         | —              | 181,421      |
| Total current liabilities                      | 222,000         | 327,364      | 36,993         | (8,913)        | 577,444      |
| Long-term debt                                 | 921,601         | —            | —              | —              | 921,601      |
| Deferred income tax liabilities                | —               | 147,208      | 7,806          | (1,884)        | 153,130      |
| Accrued pension and postemployment liabilities | —               | 69,575       | —              | —              | 69,575       |
| Long-term due to affiliates                    | 300,587         | —            | 40,066         | (340,653)      | —            |
| Other long-term liabilities                    | —               | 63,687       | 1,044          | —              | 64,731       |
| Total liabilities                              | 1,444,188       | 607,834      | 85,909         | (351,450)      | 1,786,481    |
| <b>Equity</b>                                  |                 |              |                |                |              |
| Total stockholders' equity                     | 1,257,684       | 2,496,210    | 262,641        | (2,758,851)    | 1,257,684    |
| Total liabilities and stockholders' equity     | \$ 2,701,872    | \$ 3,104,044 | \$ 348,550     | \$ (3,110,301) | \$ 3,044,165 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
(unaudited)

| (Amounts in thousands)                         | March 31, 2016      |                     |                   |                       |                     |
|--|---------------------|---------------------|-------------------|-----------------------|---------------------|
|  | Parent Issuer       | Guarantors          | Non-Guarantors    | Eliminations          | Consolidated        |
| <b>ASSETS</b>                                  |                     |                     |                   |                       |                     |
| Current assets:                                |                     |                     |                   |                       |                     |
| Cash and cash equivalents                      | \$ —                | \$ 133,503          | \$ 18,189         | \$ —                  | \$ 151,692          |
| Net receivables                                | —                   | 382,662             | 45,736            | —                     | 428,398             |
| Due from affiliates, current                   | —                   | 19,912              | —                 | (19,912)              | —                   |
| Net inventories                                | —                   | 379,658             | 64,867            | (4,285)               | 440,240             |
| Other current assets                           | —                   | 26,517              | 2,817             | —                     | 29,334              |
| Total current assets                           | —                   | 942,252             | 131,609           | (24,197)              | 1,049,664           |
| Net property, plant, and equipment             | —                   | 192,674             | 10,811            | —                     | 203,485             |
| Investment in subsidiaries                     | 2,530,524           | 36,865              | —                 | (2,567,389)           | —                   |
| Goodwill                                       | —                   | 911,715             | 111,736           | —                     | 1,023,451           |
| Net intangible assets                          | —                   | 613,869             | 36,603            | —                     | 650,472             |
| Long-term due from affiliates                  | —                   | 241,598             | —                 | (241,598)             | —                   |
| Deferred charges and other non-current assets  | —                   | 11,833              | 3,729             | —                     | 15,562              |
| Total assets                                   | <u>\$ 2,530,524</u> | <u>\$ 2,950,806</u> | <u>\$ 294,488</u> | <u>\$ (2,833,184)</u> | <u>\$ 2,942,634</u> |
| <b>LIABILITIES AND EQUITY</b>                  |                     |                     |                   |                       |                     |
| Current liabilities:                           |                     |                     |                   |                       |                     |
| Current portion of long-term debt              | \$ 17,500           | \$ —                | \$ —              | \$ —                  | \$ 17,500           |
| Accounts payable                               | —                   | 134,334             | 13,404            | —                     | 147,738             |
| Due to affiliates, current                     | —                   | —                   | 19,912            | (19,912)              | —                   |
| Accrued compensation                           | —                   | 43,826              | 3,568             | —                     | 47,394              |
| Accrued income taxes                           | —                   | 11,698              | 473               | —                     | 12,171              |
| Federal excise tax                             | —                   | 27,329              | 372               | —                     | 27,701              |
| Other current liabilities                      | —                   | 107,499             | 8,898             | —                     | 116,397             |
| Total current liabilities                      | 17,500              | 324,686             | 46,627            | (19,912)              | 368,901             |
| Long-term debt                                 | 652,787             | —                   | —                 | —                     | 652,787             |
| Deferred income tax liabilities                | —                   | 127,483             | 8,192             | 282                   | 135,957             |
| Accrued pension and postemployment liabilities | —                   | 73,503              | —                 | —                     | 73,503              |
| Long-term due to affiliates                    | 200,070             | —                   | 41,528            | (241,598)             | —                   |
| Other long-term liabilities                    | —                   | 50,048              | 1,271             | —                     | 51,319              |
| Total liabilities                              | 870,357             | 575,720             | 97,618            | (261,228)             | 1,282,467           |
| <b>Equity</b>                                  |                     |                     |                   |                       |                     |
| Total stockholders' equity                     | 1,660,167           | 2,375,086           | 196,870           | (2,571,956)           | 1,660,167           |
| Total liabilities and stockholders' equity     | <u>\$ 2,530,524</u> | <u>\$ 2,950,806</u> | <u>\$ 294,488</u> | <u>\$ (2,833,184)</u> | <u>\$ 2,942,634</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(unaudited)

| (Amounts in thousands)  | Nine months ended January 1, 2017 |            |                |              |              |
|---|-----------------------------------|------------|----------------|--------------|--------------|
|   | Parent Issuer                     | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| <b>Operating Activities:</b>                                    |                                   |            |                |              |              |
| Cash provided by operating activities                           | \$ 11,298                         | \$ 42,857  | \$ 3,736       | \$ —         | \$ 57,891    |
| <b>Investing Activities:</b>                                    |                                   |            |                |              |              |
| Capital expenditures  | —                                 | (48,443)   | (859)          | —            | (49,302)     |
| Due from affiliates   | —                                 | (116,584)  | —              | 116,584      | —            |
| Acquisition of businesses, net of cash acquired                 | (465,684)                         | 3,230      | 4,305          | —            | (458,149)    |
| Proceeds from the disposition of property, plant, and equipment | —                                 | 42         | 50             | —            | 92           |
| Cash provided by (used for) investing activities                | (465,684)                         | (161,755)  | 3,496          | 116,584      | (507,359)    |
| <b>Financing Activities:</b>                                    |                                   |            |                |              |              |
| Due to affiliates   | 114,467                           | —          | 2,117          | (116,584)    | —            |
| Borrowings on line of credit                                    | 445,000                           | —          | —              | —            | 445,000      |
| Payments on line of credit                                      | (255,000)                         | —          | —              | —            | (255,000)    |
| Proceeds from issuance of long-term debt                        | 307,500                           | —          | —              | —            | 307,500      |
| Payments made on long-term debt                                 | (24,000)                          | —          | —              | —            | (24,000)     |
| Payments made for debt issuance costs                           | (3,660)                           | —          | —              | —            | (3,660)      |
| Purchase of treasury shares                                     | (122,860)                         | —          | —              | —            | (122,860)    |
| Deferred payments for acquisitions                              | (7,136)                           | —          | —              | —            | (7,136)      |
| Proceeds from employee stock compensation plans                 | 75                                | —          | —              | —            | 75           |
| Cash provided by financing activities                           | 454,386                           | —          | 2,117          | (116,584)    | 339,919      |
| Effect of foreign exchange rate fluctuations on cash            | —                                 | —          | (1,302)        | —            | (1,302)      |
| (Decrease) increase in cash and cash equivalents                | —                                 | (118,898)  | 8,047          | —            | (110,851)    |
| Cash and cash equivalents at beginning of period                | —                                 | 133,503    | 18,189         | —            | 151,692      |
| Cash and cash equivalents at end of period                      | \$ —                              | \$ 14,605  | \$ 26,236      | \$ —         | \$ 40,841    |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

14. Condensed Consolidating Financial Statements (Continued)

**VISTA OUTDOOR INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(unaudited)

| (Amounts in thousands)  | Nine months ended January 3, 2016 |                  |                  |              |                  |
|---|-----------------------------------|------------------|------------------|--------------|------------------|
|   | Parent Issuer                     | Guarantors       | Non-Guarantors   | Eliminations | Consolidated     |
| <b>Operating Activities:</b>                                    |                                   |                  |                  |              |                  |
| Cash provided by (used for) operating activities                | \$ (11,422)                       | \$ 75,482        | \$ 7,228         | \$ —         | \$ 71,288        |
| <b>Investing Activities:</b>                                    |                                   |                  |                  |              |                  |
| Capital expenditures  | —                                 | (24,806)         | (1,495)          | —            | (26,301)         |
| Due from affiliates   | —                                 | (249,214)        | —                | 249,214      | —                |
| Acquisition of businesses, net of cash acquired                 | (466,841)                         | 4,725            | —                | —            | (462,116)        |
| Proceeds from the disposition of property, plant, and equipment | —                                 | 461              | 235              | —            | 696              |
| Cash used for investing activities                              | (466,841)                         | (268,834)        | (1,260)          | 249,214      | (487,721)        |
| <b>Financing Activities:</b>                                    |                                   |                  |                  |              |                  |
| Due to affiliates   | 253,817                           | —                | (4,603)          | (249,214)    | —                |
| Borrowings on line of credit                                    | 360,000                           | —                | —                | —            | 360,000          |
| Payments on line of credit                                      | (360,000)                         | —                | —                | —            | (360,000)        |
| Proceeds from issuance of long-term debt                        | 350,000                           | —                | —                | —            | 350,000          |
| Payment from former parent                                      | 6,500                             | —                | —                | —            | 6,500            |
| Payments made on long-term debt                                 | (13,125)                          | —                | —                | —            | (13,125)         |
| Payments made for debt issuance costs                           | (4,379)                           | —                | —                | —            | (4,379)          |
| Purchase of treasury shares                                     | (115,194)                         | —                | —                | —            | (115,194)        |
| Excess tax benefits from share-based plans                      | 206                               | —                | —                | —            | 206              |
| Proceeds from employee stock compensation plans                 | 438                               | —                | —                | —            | 438              |
| Cash provided by financing activities                           | 478,263                           | —                | (4,603)          | (249,214)    | 224,446          |
| Effect of foreign exchange rate fluctuations on cash            | —                                 | —                | (830)            | —            | (830)            |
| (Decrease) increase in cash and cash equivalents                | —                                 | (193,352)        | 535              | —            | (192,817)        |
| Cash and cash equivalents at beginning of period                | —                                 | 247,375          | 16,576           | —            | 263,951          |
| Cash and cash equivalents at end of period                      | <u>\$ —</u>                       | <u>\$ 54,023</u> | <u>\$ 17,111</u> | <u>\$ —</u>  | <u>\$ 71,134</u> |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

**(Amounts in thousands except share and per share data unless otherwise indicated)**

**15. Operating Segment Information**

We operate our business structure within two operating segments. These operating segments are also considered our reportable Segments in accordance with ASC 280 and are defined based on the reporting and review process used by the chief operating decision maker, our chief executive officer. Management reviews the operating segments based on net sales and gross profit. Certain significant selling, general, and administrative expenses are not allocated to the segments. In addition certain significant asset balances are not readily identifiable with individual segments and therefore cannot be allocated. Each segment is described below:

- Outdoor Products generated 46% of our external sales in the nine months ended January 1, 2017. The Outdoor Products product lines are action sports, archery/hunting accessories, camping, global eyewear and sport protection products, golf, hydration products, optics, shooting accessories, tactical products, and water sports. Action sports includes helmets, goggles, and accessories for cycling, snow sports, action sports and powersports. Archery/hunting accessories include high-performance hunting arrows, game calls, hunting blinds, game cameras and waterfowl decoys. Camping products include our outdoor cooking solutions. Global eyewear and sport protection products include safety and protective eyewear, goggles, and helmets, as well as fashion and sports eyewear. Golf products include laser rangefinders. Hydration products include hydration packs and water bottles. Optics products include binoculars, riflescopes and telescopes. Shooting accessories products include reloading equipment, clay targets, and premium gun care products. Tactical products include holsters, duty gear, bags and packs. Water sports products include stand up paddle boards.
- Shooting Sports generated 54% of our external sales in the nine months ended January 1, 2017. The Shooting Sports product lines include centerfire ammunition, rimfire ammunition, shotshell ammunition, reloading components, and firearms.

One customer contributed 11% of our sales for the nine months ended January 1, 2017 and no customer contributed 10% of our sales for the nine months ended January 3, 2016. No other single customer contributed more than 10% of our sales for the nine months ended January 1, 2017.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

(Amounts in thousands except share and per share data unless otherwise indicated)

## 15. Operating Segment Information (Continued)

The following summarizes our results by segment:

|                                   | Quarter ended      |                    | Nine months ended   |                     |
|-----------------------------------|--------------------|--------------------|---------------------|---------------------|
|                                   | January 1,<br>2017 | January 3,<br>2016 | January 1,<br>2017  | January 3,<br>2016  |
| Sales to external customers:      |                    |                    |                     |                     |
| Outdoor Products                  | \$ 292,800         | \$ 236,099         | \$ 900,981          | \$ 631,672          |
| Shooting Sports                   | 360,758            | 356,458            | 1,067,158           | 1,026,759           |
| Total sales to external customers | <u>\$ 653,558</u>  | <u>\$ 592,557</u>  | <u>\$ 1,968,139</u> | <u>\$ 1,658,431</u> |
| Gross Profit                      |                    |                    |                     |                     |
| Outdoor Products                  | \$ 71,161          | \$ 63,607          | \$ 235,818          | \$ 173,886          |
| Shooting Sports                   | 97,560             | 103,864            | 290,010             | 282,144             |
| Corporate                         | (115)              | 33                 | (436)               | (210)               |
| Total gross profit                | <u>\$ 168,606</u>  | <u>\$ 167,504</u>  | <u>\$ 525,392</u>   | <u>\$ 455,820</u>   |

The sales above exclude intercompany sales between Outdoor Products and Shooting Sports of \$1,769 and \$800 for the quarters ended January 1, 2017 and January 3, 2016, respectively.

The sales above exclude intercompany sales between Outdoor Products and Shooting Sports of \$3,518 and \$2,276 for the nine months ended January 1, 2017 and January 3, 2016, respectively.

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

*(Dollar amounts in thousands unless otherwise indicated)*

### **Forward-Looking Information is Subject to Risk and Uncertainty**

Some of the statements made and information contained in this report, excluding historical information, are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events. Words such as "may," "expect," "intend," "estimate," "anticipate," "believe," "project," or "continue," and similar expressions are used to identify forward-looking statements. From time to time, we also may provide oral or written forward-looking statements in other materials released to the public. Any or all forward-looking statements in this report and in any public statements we make could be materially different. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Any change in the following factors may impact the achievement of results:

- general economic and business conditions in the United States and our other markets, including employment levels, consumer confidence and spending, and other economic conditions affecting demand for our products and the financial health of our customers;
- our ability to attract and retain key personnel and maintain and grow our relationships with customers, suppliers and other business partners;
- our ability to adapt our products to changes in technology, the marketplace and customer preferences;
- our ability to maintain and enhance brand recognition and reputation;
- reductions, unexpected changes in or our inability to accurately forecast demand for ammunition, firearms or other outdoor sports and recreation products;
- risks associated with our sales to significant customers, including unexpected cancellations, delays and other changes to purchase orders;
- supplier capacity constraints, production disruptions or quality or price issues affecting our operating costs;
- our competitive environment;
- risks associated with compliance and diversification into international and commercial markets;
- the supply, availability and costs of raw materials and components;
- increases in commodity, energy and production costs;
- changes in laws, rules and regulations relating to our business, such as federal and state firearms and ammunition regulations;
- our ability to execute our long-term growth strategy, including our ability to complete and realize expected benefits from acquisitions and integrate acquired businesses;
- our ability to take advantage of growth opportunities in international and commercial markets;
- foreign currency exchange rates and fluctuations in those rates;
- the outcome of contingencies, including with respect to litigation and other proceedings relating to intellectual property, product liability, warranty liability, personal injury and environmental remediation;
- risks associated with cybersecurity and other industrial and physical security threats;
- capital market volatility and the availability of financing;
- changes to accounting standards or policies; and
- changes in tax rules or pronouncements.

This list of factors is not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that would impact our business. We undertake no obligation to update any forward-looking statements. A more detailed description

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of risk factors can be found in Part 1, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended March 31, 2016. Additional information regarding these factors may be contained in our subsequent filings with the Securities and Exchange Commission, including Forms 10-Q and 8-K. All such risk factors are difficult to predict, contain material uncertainties that may affect actual results, and may be beyond our control.

### **Executive Summary**

We serve the outdoor sports and recreation markets through a diverse portfolio of approximately 50 well-recognized brands that provide consumers with a wide range of performance-driven, high-quality and innovative products, including sporting ammunition and firearms, outdoor accessories, outdoor sports optics, golf rangefinders, performance eyewear, hydration products, stand up paddle boards, and protection for certain action sports. We serve a broad range of end consumers, including outdoor enthusiasts, hunters and recreational shooters, athletes, as well as law enforcement and military professionals. Our products are sold through a wide variety of mass, specialty, and independent retailers, and distributors, such as AcuSport, Amazon, Bass Pro Shops, Big Rock Sports, Cabela's, Dick's Sporting Goods, Gander Mountain, Recreational Equipment, Inc., Sports South, Sportsman's Warehouse, Target United Sporting Company, and Walmart. We also sell certain of our products directly to consumers through the relevant brand's website. We have a scalable, integrated portfolio of brands that allows us to leverage our deep customer knowledge, product development and innovation, supply chain and distribution, and sales and marketing functions across product categories to better serve our retail partners and end users.

We operate our business structure within two operating segments. Each segment is described below:

- Outdoor Products generated 46% of our external sales in the nine months ended January 1, 2017. The Outdoor Products product lines are action sports, archery/hunting accessories, camping, global eyewear and sport protection products, golf, hydration products, optics, shooting accessories, tactical products and water sports. Action sports includes helmets, goggles, and accessories for cycling, snow sports, action sports and powersports. Archery/hunting accessories include high-performance hunting arrows, game calls, hunting blinds, game cameras and waterfowl decoys. Camping products include our outdoor cooking solutions. Eyewear and sport protection products include safety and protective eyewear, as well as fashion and sports eyewear. Golf products include laser rangefinders. Hydration products include hydration packs and water bottles. Optics products include binoculars, riflescopes and telescopes. Shooting accessories products include reloading equipment, clay targets, and premium gun care products. Tactical products include holsters, duty gear, bags and packs. Water sports products include stand up paddle boards.
- Shooting Sports generated 54% of our external sales in the nine months ended January 1, 2017. The Shooting Sports product lines include centerfire ammunition, rimfire ammunition, shotshell ammunition, reloading components and firearms.

### ***Financial Highlights and Notable Events***

Certain notable events or activities affecting our fiscal 2017 financial results included the following:

#### *Financial highlights for the quarter ended January 1, 2017*

- Quarterly sales were \$653,558 and \$592,557 for the quarters ended January 1, 2017 and January 3, 2016, respectively. The increase is due to the acquisitions of Action Sports and Camp Chef, and an increase in the Shooting Sports segment, partially offset by a decrease in the organic business of the Outdoor Products segment.
- Gross profit was \$168,606 and \$167,504 for the quarters ended January 1, 2017 and January 3, 2016, respectively. Gross profit was slightly up driven by the acquisitions of Action Sports and Camp Chef, partially offset by organic declines in the Outdoor Products and Shooting Sports segments.
- A \$449,199 pre-tax non-cash impairment charge (\$353,915 impairment to goodwill and \$95,284 impairment to identifiable intangible assets) was recorded during the fiscal quarter.
- The change in the current quarter's tax rate of 4.4% compared to a quarter tax rate of 36.0% in the quarter ended January 3, 2016 was primarily caused by the nondeductible goodwill impairment charge in the current quarter.

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### *Other notable events affecting fiscal 2017*

- On April 1, 2016, we completed the acquisition of BRG Sports Inc.'s Action Sports division, operated by Bell Sports Corp. ("Action Sports"). The acquisition includes brands Bell, Giro, Blackburn, CoPilot, Krash, and Raskullz. Under the terms of the transaction, we paid \$400,000, subject to customary working capital adjustments, utilizing cash on hand and borrowings under our existing credit facilities and additional contingent consideration payable if incremental profitability growth milestones within the Bell Powersports product line are achieved.
- On April 1, 2016, we entered into an Amended and Restated Credit Agreement (the "2016 Credit Agreement"), which replaced the 2014 Credit Agreement. The 2016 Credit Agreement is comprised of a Term A Loan of \$640,000 and a \$400,000 Revolving Credit Facility, both of which mature on April 1, 2021. The Term A Loan is subject to quarterly principal payments of \$8,000, with the remaining balance due on April 1, 2021.
- On August 25, 2016, we exchanged our \$350,000 of outstanding unregistered 5.875% Notes for the equivalent amount of registered notes.
- On September 1, 2016, we completed the acquisition of privately owned Logan Outdoor Products, LLC and Peak Trades, LLC ("Camp Chef"), a leading provider of outdoor cooking solutions. Under the terms of the transaction, we paid \$60,000, subject to customary working capital adjustments, utilizing cash on hand and borrowings under our existing credit facility. An additional \$4,000 has been deferred and will be paid in equal installments on the first, second and third anniversary of the closing date and \$10,000 will be payable if incremental profitability growth milestones are met and key members of Camp Chef management continue their employment with us. The \$10,000 will be expensed over the measurement period and paid at each milestone date.
- We completed our \$200,000 share repurchase program authorized on February 25, 2015 during the quarter ended October 2, 2016. On August 25, 2016, our Board of Directors authorized a new share repurchase program of up to \$100,000 worth of our common stock, executable through March 31, 2018. During the nine months ended January 1, 2017, we repurchased approximately 3,095,952 shares of our common stock for \$126,560. We completed our \$100,000 share repurchase program on January 23, 2017.
- During the second quarter of fiscal 2017 we finalized a settlement of claims that we brought against the previous owner of Bushnell Holdings and third party insurance providers relating to certain disputes arising under the purchase agreement with respect to the acquisition. A settlement was reached in which we received a total of \$30,027 net of current period litigation costs associated with the claims.

## **Outlook**

### *Outdoor Recreation Industry*

The outdoor recreation industry represents a large and growing focus area of our business. During the current fiscal year we have seen a challenging retail environment as well as other market pressures that resulted in a deeper discounting of our products. These market pressures became particularly pronounced during the latter half of the third fiscal quarter. Based on the current economic conditions and the sluggish retail environment in our market, we expect these conditions to continue through fiscal 2018. Given these market conditions, we are taking appropriate actions to lower our inventory levels by reducing certain purchases of sourced products and output of manufactured product across both operating segments. We believe the fragmented nature of the outdoor recreation industry, combined with retail and consumer overlap with our existing businesses, present attractive growth opportunities. We hold a strong competitive position in the market place, and we intend to further differentiate our brands through focused R&D and marketing investments including increased use of social media and revamping our brand websites as we strive to become our customers' brand of choice in their respective outdoor recreation activities. Growing market share will continue to be a focus as we execute our strategic vision of "Good, Better, Best" and will introduce new products to accomplish this.

### *Shooting Sports Industry*

Shooting sports related products currently represent over half of our sales. We design, develop, manufacture, and source ammunition, long guns and related equipment products. Among these categories, we derive the largest portion of our sales from ammunition, which is a consumable, repeat purchase product. During late fiscal 2015 and 2016 firearms and ammunition sales experienced an increase as more individuals entered the market and certain public and political events provided focus on the industry. In recent months we believe the market has softened due to developments in the political environment and decreased

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recent National Instant Criminal Background ("NICS") checks. Given these market conditions, we are taking appropriate actions to lower our inventory levels by reducing certain purchases of sourced products and output of manufactured product across both operating segments. We believe we are well-positioned to succeed in a difficult shooting sports market, given our scale and global operating platform, which we believe is difficult to replicate in the highly regulated and capital intensive ammunition manufacturing sector.

### **Critical Accounting Policies**

Our critical accounting policies are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended March 31, 2016. We believe our critical accounting policies are those related to:

- revenue recognition,
- allowance for doubtful accounts,
- inventories,
- income taxes,
- acquisitions, and
- accounting for goodwill and indefinite lived intangibles.

The accounting policies used in preparing our interim fiscal 2017 consolidated financial statements are the same as those described in our Annual Report on Form 10-K except for the addition of the following:

#### *Accounting for goodwill and indefinite lived intangibles:*

As a result of a challenging retail environment, as well as other market pressures that resulted in a deeper discounting of our accessories products, both of which accelerated during our quarter ended January 1, 2017, there was a reduction in the projected cash flows of the Hunting and Shooting accessories, Outdoor Recreation, and Sports Protection reporting units. Given this drop in projected cashflows and the overall retail environment, we determined that a triggering event had occurred as of November 28, 2016, which indicated it was more likely than not that the fair value of the reporting units were less than the book value.

During the quarter ended January 1, 2017, Vista Outdoor recorded a \$353,915 impairment of goodwill related to the Hunting and Shooting Accessories reporting unit. As a result, the fair value of the reporting unit no longer exceeds the carrying value by more than 10% and therefore has less than a significant excess over carrying value. After the impairment, this reporting unit had approximately \$106,000 of goodwill recorded at January 1, 2017. The fair value of the Hunting and Shooting Accessories reporting unit was determined using both an income and market approach. The value estimated using a discounted cash flow model requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital, and the appropriate discount rate and is weighted against the estimated value derived from the guideline company market approach method. We used a discount rate of 8.5% and a 3% terminal growth rate. The market approach method estimates the price reasonably expected to be realized from the sale of the Company using comparable company multiples and a control premium of 25%. Should the challenging retail environment last longer or be deeper than expected or if new product developments do not succeed, or if the discount rate were to increase by more than 100 basis points, it is possible that the estimated fair value of this reporting unit could fall below its carrying value, which could necessitate impairment of the goodwill in this reporting unit.

The Outdoor Recreation reporting unit had an estimated fair value that exceeded its carrying value by approximately 6%. This reporting unit had approximately \$427,000 of goodwill recorded at January 1, 2017. All of the goodwill recorded within this reporting unit relates to the acquisitions of CamelBak, Camp Chef, and Jimmy Styks. We would not expect to see significant excess within this reporting unit given that we determined the fair value of this goodwill within the last two years. The fair value of the Outdoor Recreation reporting unit was determined using both an income and market approach. The value estimated using a discounted cash flow model requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate and is weighted against the estimated value derived from the guideline company market approach method. We used a discount rate of 8.5% and a 3% terminal growth rate. The market approach method estimates the price reasonably expected to be realized from the sale of the company using comparable Company multiples and a control premium of 25%. Should the challenging retail environment last longer or be deeper than expected or if new product developments do not succeed, or if the discount rate were to increase by

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more than 100 basis points, it is possible that the estimated fair value of this reporting unit could fall below its carrying value, which could necessitate impairment of the goodwill in this reporting unit.

The Sports Protection reporting unit had an estimated fair value that exceeded its carrying value by approximately 10%. This reporting unit had approximately \$295,000 of goodwill recorded at January 1, 2017. The majority of the goodwill recorded within this reporting unit relates to the acquisition of Action Sports. We would not expect to see significant excess within this reporting unit given that we determined the fair value of this goodwill within the last year. The fair value of the Sports Protection reporting unit was determined using both an income and market approach. The value estimated using a discounted cash flow model requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate and is weighted against the estimated value derived from the guideline company market approach method. We used a discount rate of 7.5% and a 3% terminal growth rate. The market approach method estimates the price reasonably expected to be realized from the sale of the company using comparable company multiples and a control premium of 25%. Should the challenging retail environment last longer or be deeper than expected or if new product developments do not succeed, or if the discount rate were to increase by more than 100 basis points, it is possible that the estimated fair value of this reporting unit could fall below its carrying value, which could necessitate impairment of the goodwill in this reporting unit.

During the quarter ended January 1, 2017, we performed an interim test for indefinite lived tradename impairment and we recorded a \$34,230 impairment related to indefinite lived tradenames within the Hunting and Shooting Accessories reporting unit, predominantly the Bushnell tradename. We determined the fair value of the indefinite lived tradenames using a royalty rate of 2% for the Bushnell tradename and 0.5% for all other indefinite lived tradenames based on public guideline royalty-based transactions and a discount rate of 9.5%.

We perform our annual impairment test as of the first day of the fourth quarter each year which will be January 2, 2017 in the current fiscal year. We will evaluate the Outdoor Products reporting units as well as the two other reporting units in our Shooting Sports segment for impairment in connection with the preparation of our annual financial statements.

## **Results of Operations**

The following information should be read in conjunction with our condensed consolidated financial statements. The key performance indicators that our management uses in managing the business are sales, gross profit, and cash flows.

Segment total net sales, cost of sales, and gross profit exclude intersegment sales and profit.

### *Acquisitions*

We had two acquisitions during the nine months ended January 1, 2017 and two during fiscal 2016 as follows:

#### *Acquisition of Camp Chef*

On September 1, 2016, we completed the acquisition of privately owned Logan Outdoor Products, LLC and Peak Trades, LLC ("Camp Chef"), a leading provider of outdoor cooking solutions. Under the terms of the transaction, we paid \$60,000, subject to customary working capital adjustments, utilizing cash on hand and borrowings under our existing credit facility. An additional \$4,000 has been deferred and will be paid in equal installments on the first, second and third anniversary of the closing date and \$10,000 will be payable if incremental profitability growth milestones are met and key members of Camp Chef management continue their employment with us. The \$10,000 will be expensed over the measurement period and paid at each milestone date.

#### *Acquisition of Action Sports*

On April 1, 2016, we completed the acquisition of BRG Sports Inc.'s Action Sports division, operated by Bell Sports Corp. The acquisition includes brands Bell, Giro, Blackburn, CoPilot, Krash, and Raskullz. Under the terms of the transaction, we paid \$400,000 in cash, subject to customary working capital adjustments, and additional contingent consideration payable if incremental profitability growth milestones within the Bell Powersports product line are achieved. We determined a value of the future contingent consideration as of the acquisition date of \$4,272 utilizing the Black Scholes option pricing model; the total amount paid may differ from this value. Action Sports remains headquartered in Scotts Valley, California and operates facilities in the U.S., Canada, Europe and Asia. The acquisition of Action Sports includes more than 600 employees worldwide.



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### *Acquisition of CamelBak Products*

On August 3, 2015, we completed the acquisition of CamelBak Products, LLC ("CamelBak") for total consideration of \$412,500, subject to a customary working capital adjustment, utilizing cash on hand and borrowings under our existing credit facilities. CamelBak is the leading provider of personal hydration solutions for outdoor, recreation and military use. CamelBak's products include hydration packs, reusable bottles and individual purification and filtration systems. CamelBak has approximately 300 employees worldwide.

### *Acquisition of Jimmy Styks*

On July 20, 2015, we completed the acquisition of Jimmy Styks, LLC ("Jimmy Styks"), using \$40,000 of cash on hand with additional contingent consideration payable if incremental profitability growth milestones are achieved over the next three years. We determined a value of the future contingent consideration as of the acquisition date of \$4,471 utilizing the Black Scholes option pricing model; the total amount paid may differ from this value. Jimmy Styks is a leading designer and marketer of stand up paddle boards and related accessories. Jimmy Styks' stand up paddle board portfolio provides easy-to-use platforms for water sport enthusiasts engaging in activities ranging from personal fitness to fishing and will help us expand our Outdoor Products operating segment. Jimmy Styks offers nearly 30 SKUs in epoxy, inflatable, soft and thermoform boards, as well as accessories. As of January 1, 2017, the value of the future contingent consideration was \$1,075. The reduction from the original estimate was primarily a result of not achieving the first growth milestone.

### *Sales*

One customer contributed 11% of our sales for the nine months ended January 1, 2017 and no single customer contributed over 10% of our sales for the nine months ended January 3, 2016. No other single customer contributed more than 10% of our sales for the nine months ended January 1, 2017.

The following is a summary of each operating segment's sales:

|                      | Quarter ended   |                 |           |          | Nine months ended |                 |            |          |
|----------------------|-----------------|-----------------|-----------|----------|-------------------|-----------------|------------|----------|
|                      | January 1, 2017 | January 3, 2016 | \$ Change | % Change | January 1, 2017   | January 3, 2016 | \$ Change  | % Change |
| Outdoor Products     | \$ 292,800      | \$ 236,099      | \$ 56,701 | 24.0%    | \$ 900,981        | \$ 631,672      | \$ 269,309 | 42.6%    |
| Shooting Sports      | 360,758         | 356,458         | 4,300     | 1.2%     | 1,067,158         | 1,026,759       | 40,399     | 3.9%     |
| Total external sales | \$ 653,558      | \$ 592,557      | \$ 61,001 | 10.3%    | \$ 1,968,139      | \$ 1,658,431    | \$ 309,708 | 18.7%    |

The overall fluctuation in net sales was driven by the changes within the operating segments as described below.

#### Quarter Ended

*Outdoor Products.* The increase in sales was driven by sales of \$92,134 from the Action Sports and Camp Chef acquisitions completed this fiscal year, partially offset by organic decreases across most product lines as a result of a challenging retail environment which led to increased promotional activity across all product lines.

*Shooting Sports.* The increase in sales was driven by increases in centerfire and rimfire ammunition sales partially offset by decreases in shotshell ammunition and firearms, partially offset by higher rebates and promotional costs.

#### Nine Months Ended

*Outdoor Products.* The increase in sales was driven by sales of \$332,580 from the Action Sports and Camp Chef acquisitions completed this fiscal year and the CamelBak and Jimmy Styks acquisitions for the period in which they were not a part of Vista Outdoor in the prior year period, partially offset by organic decreases across most product lines as a result of a challenging retail environment which led to increased promotional activity across all product lines.

*Shooting Sports.* The increase in sales was due to strong market demand across all product lines.

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### *Cost of Sales and Gross Profit*

The following is a summary of each operating segment's cost of sales and gross profit:

|                      | Quarter ended      |                    |                  |          | Nine months ended   |                     |                   |          |
|----------------------|--------------------|--------------------|------------------|----------|---------------------|---------------------|-------------------|----------|
|                      | January 1,<br>2017 | January 3,<br>2016 | \$ Change        | % Change | January 1,<br>2017  | January 3,<br>2016  | \$ Change         | % Change |
| <b>Cost of sales</b> |                    |                    |                  |          |                     |                     |                   |          |
| Outdoor Products     | \$ 221,639         | \$ 172,492         | \$ 49,147        | 28.5 %   | \$ 665,163          | \$ 457,785          | \$ 207,378        | 45.3%    |
| Shooting Sports      | 263,198            | 252,594            | 10,604           | 4.2 %    | 777,148             | 744,616             | 32,532            | 4.4%     |
| Corporate            | 115                | (33)               | 148              | (448.5)% | 436                 | 210                 | 226               | 107.6%   |
| Total cost of sales  | <u>\$ 484,952</u>  | <u>\$ 425,053</u>  | <u>\$ 59,899</u> | 14.1 %   | <u>\$ 1,442,747</u> | <u>\$ 1,202,611</u> | <u>\$ 240,136</u> | 20.0%    |

|                     | Quarter ended      |                    |                 |          | Nine months ended  |                    |                  |          |
|---------------------|--------------------|--------------------|-----------------|----------|--------------------|--------------------|------------------|----------|
|                     | January 1,<br>2017 | January 3,<br>2016 | \$ Change       | % Change | January 1,<br>2017 | January 3,<br>2016 | \$ Change        | % Change |
| <b>Gross profit</b> |                    |                    |                 |          |                    |                    |                  |          |
| Outdoor Products    | \$ 71,161          | \$ 63,607          | \$ 7,554        | 11.9 %   | \$ 235,818         | \$ 173,886         | \$ 61,932        | 35.6%    |
| Shooting Sports     | 97,560             | 103,864            | (6,304)         | (6.1)%   | 290,010            | 282,144            | 7,866            | 2.8%     |
| Corporate           | (115)              | 33                 | (148)           | (448.5)% | (436)              | (210)              | (226)            | 107.6%   |
| Total gross profit  | <u>\$ 168,606</u>  | <u>\$ 167,504</u>  | <u>\$ 1,102</u> | 0.7 %    | <u>\$ 525,392</u>  | <u>\$ 455,820</u>  | <u>\$ 69,572</u> | 15.3%    |

The overall fluctuation in cost of sales and gross profit was driven by the changes within the operating segments as described below.

#### Quarter Ended

*Outdoor Products.* The increase in gross profit was primarily driven by \$24,167 from the Action Sports and Camp Chef acquisitions completed this fiscal year, partially offset by a decrease in organic business due to lower sales and increased promotional activity.

*Shooting Sports.* The decrease in gross profit was primarily caused by higher rebates, promotional costs and unfavorable changes in product mix in the current year, partially offset by favorable material procurement costs and production efficiencies.

*Corporate.* The change in corporate gross profit was not material.

#### Nine Months Ended

*Outdoor Products.* The increase in gross profit was primarily driven by \$98,449 from the Action Sports and Camp Chef acquisitions completed this fiscal year and the CamelBak and Jimmy Styks acquisitions for the period in which they were not a part of Vista Outdoor in the prior year period, partially offset by the decrease in the organic sales volumes and increased promotional activity.

*Shooting Sports.* The increase in gross profit was primarily driven by the volume increase noted above.

*Corporate.* The change in corporate gross profit was not material.

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### Operating Expenses

|  | Quarter ended   |                 |                 |                 |            | Nine months ended |                 |                 |                 |            |
|--|-----------------|-----------------|-----------------|-----------------|------------|-------------------|-----------------|-----------------|-----------------|------------|
|  | January 1, 2017 | As a % of Sales | January 3, 2016 | As a % of Sales | \$ Change  | January 1, 2017   | As a % of Sales | January 3, 2016 | As a % of Sales | \$ Change  |
| Research and development               | \$ 8,170        | 1.3%            | \$ 3,681        | 0.6%            | \$ 4,489   | \$ 24,151         | 1.2%            | \$ 8,851        | 0.5%            | \$ 15,300  |
| Selling, general, and administrative   | 95,893          | 14.7%           | 88,591          | 15.0%           | 7,302      | 303,060           | 15.4%           | 252,011         | 15.2%           | 51,049     |
| Acquisition claim settlement gain, net | —               | —%              | —               | —%              | —          | (30,027)          | (1.5)%          | —               | —%              | (30,027)   |
| Goodwill and intangibles impairment    | 449,199         | 68.7%           | —               | —%              | 449,199    | 449,199           | 22.8%           | —               | —%              | 449,199    |
| Total operating expenses               | \$ 553,262      | 84.7%           | \$ 92,272       | 15.6%           | \$ 460,990 | \$ 746,383        | 37.9%           | \$ 260,862      | 15.7%           | \$ 485,521 |

#### Quarter Ended

Operating expenses increased by \$460,990 from the prior-year period primarily due to a non-cash goodwill and intangibles impairment charge. Research and development costs increased primarily due to the acquisition of Action Sports. Selling, general, and administrative expenses increased primarily due to the acquisition of Action Sports, partially offset by a reduction in incentive accruals as a result of current year performance and cost cutting initiatives.

#### Nine Months Ended

Operating expenses increased by \$485,521 from the prior-year period primarily driven by a pre-tax non-cash goodwill and intangible impairment charge. Research and development costs increased primarily due to the acquisitions of Action Sports and CamelBak. Selling, general, and administrative expenses increased primarily due to the acquisitions of Action Sports and CamelBak, partially offset by a reduction in the incentive accruals and sales commissions as a result of current year performance. These increases were partially offset by a one-time gain recorded as the result of the settlement of claims related to the Bushnell acquisition.

### Net Interest Expense

|                  | Quarter ended   |                 |           |          | Nine months ended |                 |           |          |
|------------------|-----------------|-----------------|-----------|----------|-------------------|-----------------|-----------|----------|
|                  | January 1, 2017 | January 3, 2016 | \$ Change | % Change | January 1, 2017   | January 3, 2016 | \$ Change | % Change |
| Interest Expense | \$ 10,551       | \$ 7,776        | \$ 2,775  | 35.7%    | \$ 32,657         | \$ 16,908       | \$ 15,749 | 93.1%    |

#### Quarter Ended

The increase was due to our debt balances being higher than the prior year period, driven by borrowings for the previously mentioned acquisitions, as well as a higher average interest rate on debt.

#### Nine Months Ended

The increase was due to our debt balances being higher than the prior year period, driven by borrowings for the previously mentioned acquisitions, as well as a higher average interest rate on debt and the write off of deferred financing fees.

### Income Tax Provision

|              | Quarter ended   |                |                 |                |            | Nine months ended |                |                 |                |            |
|--------------|-----------------|----------------|-----------------|----------------|------------|-------------------|----------------|-----------------|----------------|------------|
|              | January 1, 2017 | Effective Rate | January 3, 2016 | Effective Rate | \$ Change  | January 1, 2017   | Effective Rate | January 3, 2016 | Effective Rate | \$ Change  |
| Income taxes | \$ (17,548)     | 4.4%           | \$ 24,297       | 36.0%          | \$(41,845) | \$ 21,663         | (8.5)%         | \$ 68,326       | 38.4%          | \$(46,663) |

Our provision for income taxes includes U.S. federal, foreign, and state income taxes. Income tax provisions for interim periods are based on estimated effective annual income tax rates.

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### Quarter Ended

The income tax provisions for the quarters ended January 1, 2017 and January 3, 2016 represent an effective tax rate of 4.4% and 36.0%, respectively. The change in the rate from the prior year period is primarily caused by the goodwill impairment charge in the current quarter that is nondeductible for tax purposes.

### Nine Months Ended

The income tax provision for the nine months ended January 1, 2017 and January 3, 2016 represent effective tax rates of (8.5)% and 38.4%, respectively. The decrease in the rate from the prior year period is primarily caused by the nondeductible goodwill impairment charge partially offset by a nontaxable acquisition claim settlement gain.

## **Liquidity and Capital Resources**

We manage our business to maximize operating cash flows as the primary source of liquidity. In addition to cash on hand and cash generated by operations, sources of liquidity include a committed credit facility and access to the public debt and equity markets. We use our cash to fund investments in our existing core businesses and for debt repayment, share repurchases, and acquisitions or other activities.

### **Cash Flow Summary**

Our cash flows from operating, investing and financing activities, as reflected in the unaudited condensed consolidated statements of cash flows for the nine months ended January 1, 2017 and January 3, 2016 are summarized as follows:

|  | <u>January 1, 2017</u> | <u>January 3, 2016</u> |
|--|------------------------|------------------------|
| Cash provided by operating activities                | \$ 57,891              | \$ 71,288              |
| Cash used for investing activities                   | (507,359)              | (487,721)              |
| Cash provided by financing activities                | 339,919                | 224,446                |
| Effect of foreign exchange rate fluctuations on cash | (1,302)                | (830)                  |
| Net cash flows                                       | <u>\$ (110,851)</u>    | <u>\$ (192,817)</u>    |

#### ***Operating Activities.***

Net cash provided by operating activities was \$57,891 compared to \$71,288 in the prior year period, a change of \$13,397. The change from the prior year period was primarily a result of reduced net income and increased working capital in the current period, partially offset by the receipt of cash related to the settlement of claims related to the Bushnell acquisition. The change in working capital was driven by the timing of payments, and increased investment in inventory.

#### ***Investing Activities.***

Net cash used for investing activities was \$507,359 compared to \$487,721 in the prior year period, a change of \$19,638. The change is primarily caused by an increase in capital expenditures due to our ammunition capacity expansion project.

#### ***Financing Activities.***

Net cash provided by financing activities was \$339,919, compared to \$224,446 in the prior year period, a change of \$115,473. This change was primarily driven by an increase in the amount of debt issued to fund our acquisitions.

## **Liquidity**

In addition to our normal operating cash requirements, our principal future cash requirements will be to fund capital expenditures, debt repayments, employee benefit obligations, share repurchases, and any strategic acquisitions. Our short-term cash requirements for operations are expected to consist mainly of capital expenditures to maintain and expand production facilities and working capital requirements. Our debt service requirements over the next two years consist of principal and interest payments due under the 2016 Credit Agreement, as well as interest payments on the 5.875% Notes, as discussed further below.

Based on our current financial condition, management believes that our cash position, combined with anticipated generation of cash flows and the availability of funding, if needed, through our 2016 Credit Agreement, access to debt and equity markets, as well as potential future sources of funding including additional bank financing, will be adequate to fund



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future growth as well as to service our currently anticipated long-term debt and pension obligations and make capital expenditures over the next 12 months.

We do not expect that our access to liquidity sources will be materially impacted in the near future. There can be no assurance, however, that the cost or availability of future borrowings, if any, will not be materially impacted by capital market conditions.

### *Long-Term Debt and Credit Agreement*

As of January 1, 2017, we had total indebtedness of \$1,156,000, which consisted of the following:

|  | <u>January 1, 2017</u> |
|--|------------------------|
| Senior Credit Facility:                                      |                        |
| Term Loan  | \$ 616,000             |
| Revolving Credit Facility                                    | 190,000                |
| Total principal amount of Credit Agreement                   | 806,000                |
| 5.875% Senior Notes due 2023                                 | 350,000                |
| Principal amount of long-term debt                           | 1,156,000              |
| Less: Unamortized deferred financing costs                   | 12,399                 |
| Carrying amount of long-term debt                            | 1,143,601              |
| Less: current portion  | 222,000                |
| Carrying amount of long-term debt, excluding current portion | <u>\$ 921,601</u>      |

Our total debt (current portion of debt and long-term debt) as a percentage of total capitalization (total debt and stockholders' equity) was 47.9% as of January 1, 2017.

See Note 10, "Long-term Debt," to the condensed consolidated financial statements in Part I, Item 1 of this report for a detailed discussion of the 5.875% Notes and the 2016 Credit Agreement.

### *Covenants*

#### *Credit Agreement*

Our 2016 Credit Agreement imposes restrictions on us, including limitations on our ability to incur additional debt, enter into capital leases, grant liens, pay dividends and make certain other payments, sell assets, make loans and investments, or merge or consolidate with or into another entity. In addition, the 2016 Credit Agreement limits our ability to enter into sale-and-leaseback transactions. The 2016 Credit Agreement allows us to make unlimited "restricted payments" (as defined in the 2016 Credit Agreement), which, among other items, allows payments for future share repurchases and dividends, as long as we maintain a certain amount of liquidity and maintain certain debt limits. When those requirements are not met, the limit under the 2016 Credit Agreement is equal to \$150,000 plus proceeds of any equity issuances plus 50% of net income since February 9, 2015.

The 2016 Credit Agreement contains financial covenants that require us to maintain a consolidated interest coverage ratio (as defined in the Credit Agreement) of not less than 3.00 to 1.00 and to maintain a consolidated leverage ratio (as defined in the Credit Agreement) of 3.50 to 1.00 or less. Our financial covenant ratios as of January 1, 2017 were as follows:

|             | <u>Interest<br/>Coverage<br/>Ratio*</u> | <u>Leverage<br/>Ratio†</u> |
|-------------|---|----------------------------|
| Requirement | 3.00                                    | 3.50                       |
| Actual      | 9.85                                    | 3.04                       |

\* Not to be below the required financial ratio

† Not to exceed the required financial ratio

The Leverage Ratio is the sum of our total debt plus financial letters of credit and surety bonds, net of up to \$75,000 of cash, divided by Covenant EBITDA (which includes adjustments for items such as non-recurring or extraordinary non-cash items, non-cash charges related to stock-based compensation, and intangible asset impairment charges, as well as inclusion of

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EBITDA of acquired companies on a pro forma basis) for the past four fiscal quarters. The Interest Coverage Ratio is Covenant EBITDA divided by pro forma interest expense (excluding non-cash charges).

### *5.875% Notes*

The indenture governing the 5.875% Notes contains covenants that, among other things, limit our ability to incur or permit to exist certain liens, sell, transfer or otherwise dispose of assets, consolidate, amalgamate, merge or sell all or substantially all of our assets, enter into transactions with affiliates, enter into agreements restricting our subsidiaries' ability to pay dividends, incur additional indebtedness, pay dividends or make other distributions or repurchase or redeem our capital stock, prepay, redeem or repurchase certain debt and make loans and investments.

The 2016 Credit Agreement and the indenture governing the 5.875% Notes contain cross-default provisions so that non-compliance with the covenants within one debt agreement could cause a default under other debt agreements as well. As of January 1, 2017, we were in compliance with the covenants and expect to be in compliance for the foreseeable future. However, our business, financial position and results of operations are subject to various risks and uncertainties, including some that may be beyond our control, and we cannot provide any assurance that we will be able to comply with all such financial covenants in the future. For example, during periods in which we experience declines in net income, we may not be able to comply with such financial covenants. Any failure to comply with the restrictions in the 2016 Credit Agreement may prevent us from drawing under the Revolving Credit Facility and may result in an event of default under the 2016 Credit Agreement, which default may allow the creditors to accelerate the related indebtedness and proceed against the collateral that secures the indebtedness. We may not have sufficient liquidity to repay the indebtedness in such circumstances.

### *Share Repurchases*

On August 25, 2016, our Board of Directors authorized a new share repurchase program of up to \$100,000 worth of shares of our common stock, executable through March 31, 2018. The shares may be purchased from time to time in open market, block purchase, or negotiated transactions, subject to compliance with applicable laws and regulations. The repurchase authorization also allows us to make repurchases under Rule 10b5-1 of the Securities Exchange Act of 1934. We completed our previously approved \$200,000 repurchase program during the quarter ended October 2, 2016. During the nine months ended January 1, 2017 and January 3, 2016, we repurchased 3,095,952 shares for \$126,560 and 2,607,436 shares for \$115,355, respectively. Since the inception of the programs through January 1, 2017, we have repurchased 6,437,038 shares for \$275,630.

Any additional repurchases would be subject to market conditions and our compliance with our debt covenants, as described above.

### **Other Contractual Obligations and Commitments**

Other than the additional debt noted previously, there have been no material changes with respect to the contractual obligations and commitments or off-balance sheet arrangements described in our Annual Report on Form 10-K for fiscal 2016.

### **Contingencies**

*Litigation.* From time to time, we are subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of our business. We do not consider any of such proceedings that are currently pending, individually or in the aggregate, to be material to our business or likely to result in a material adverse effect on our operating results, financial condition, or cash flows.

*Environmental Liabilities.* Our operations and ownership or use of real property are subject to a number of federal, state, and local environmental laws and regulations, as well as applicable foreign laws and regulations, including those governing the discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment. We are obligated to conduct investigation and/or remediation activities at certain sites that we own or operate or formerly owned or operated.

We also have been identified as a PRP, along with other parties, in regulatory agency actions associated with hazardous waste sites. As a PRP, we may be required to pay a share of the costs of the investigation and clean-up of these sites. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our operating results, financial condition, or cash flows.

We could incur substantial additional costs, including cleanup costs, resource restoration, fines, and penalties or third-party property damage or personal injury claims, as a result of violations or liabilities under environmental laws or non-compliance with environmental permits. While environmental laws and regulations have not had a material adverse effect on

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our operating results, financial condition, or cash flows in the past, and we have environmental management programs in place to mitigate these risks, it is difficult to predict whether they will have a material impact in the future.

### **New Accounting Pronouncements**

See Note 1, "Basis of Presentation and Responsibility for Interim Financial Statements," to the unaudited condensed consolidated financial statements in Item 1 of Part I of this report.

### **Dependence on Key Customers; Concentration of Credit**

The loss of any key customer and our inability to replace revenues provided by a key customer may have a material adverse effect on our business and financial condition. One customer contributed 11% of our sales for the nine months ended January 1, 2017 and no customer contributed 10% of our sales for the nine months ended January 3, 2016. No other single customer contributed more than 10% of our sales for the nine months ended January 1, 2017.

If a key customer fails to meet payment obligations, our operating results and financial condition could be adversely affected.

### **Inflation and Commodity Price Risk**

In management's opinion, inflation has not had a significant impact upon the results of our operations. However, we have been impacted by changes in the prices of raw materials used in production as well as changes in oil and energy costs. In particular, the prices of commodity metals, such as copper, zinc, and lead continue to be volatile. These prices generally impact our Shooting Sports Segment.

We have a strategic sourcing and price strategy to mitigate risk from commodity price fluctuation. We will continue to evaluate the need for future price changes in light of these trends, our competitive landscape, and our financial results. If our sourcing and pricing strategy is unable to offset impacts of the commodity price fluctuations, our future results from operations and cash flows would be materially impacted.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from changes in interest rates. To mitigate the risks from interest rate exposure, we may enter into hedging transactions, mainly interest rate swaps, through derivative financial instruments that have been authorized pursuant to corporate policies. We may use derivatives to hedge certain interest rate, foreign currency exchange rate, and commodity price risks, but do not use derivative financial instruments for trading or other speculative purposes, and we are not a party to leveraged financial instruments. Additional information regarding the financial instruments is contained in Note 1 to the unaudited condensed consolidated financial statements. Our objective in managing exposure to changes in interest rates is to limit the impact of such changes on earnings and cash flow and to lower the overall borrowing costs.

We measure market risk related to holdings of financial instruments based on changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in fair values, cash flows, and earnings based on a hypothetical change (increase and decrease) in interest rates. We used current market rates on the debt portfolio to perform the sensitivity analysis. Certain items such as lease contracts, insurance contracts, and obligations for pension and other postretirement benefits were not included in the analysis.

We conduct business through our subsidiaries in many different countries, and fluctuations in currency exchange rates could have a significant impact on the reported results of operations, which are presented in U.S. dollars. Cross-border transactions, both with external parties and intercompany relationships, result in increased exposure to foreign exchange effects. Accordingly, significant changes in currency exchange rates, particularly the Euro, the British Pound, the Chinese Renminbi (Yuan), the Canadian dollar, and the Australian dollar, could cause fluctuations in the reported results of our businesses' operations that could negatively affect our results of operations. To mitigate the risks from foreign currency exposure, we may enter into hedging transactions, mainly foreign currency forward contracts, through derivative financial instruments that have been authorized pursuant to corporate policies.

In addition, sales and expenses of our non-U.S. businesses are also translated into U.S. dollars for reporting purposes and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects.



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### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

As of January 1, 2017, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) and have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

During the quarter ended January 1, 2017, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of our business. Notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular quarter, we do not consider any of such proceedings that are currently pending, individually or in the aggregate, to be material to our business or likely to result in a material adverse effect on our future operating results, financial condition, or cash flows.

We also have been identified as a PRP, along with other parties, in regulatory agency actions associated with hazardous waste sites. As a PRP, we may be required to pay a share of the costs of the investigation and clean-up of these sites. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we do not currently expect that these matters, individually or in the aggregate, will have a material adverse effect on our operating results, financial condition, or cash flows.

The description of certain environmental laws and regulations contained in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Contingencies" is incorporated herein by reference.

### **ITEM 1A. RISK FACTORS**

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 describes the known material risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects.

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

#### ISSUER REPURCHASES OF EQUITY SECURITIES

| <b>Period</b>                        | <b>Total Number of Shares Repurchased(1)</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Repurchased as Part of Publicly Announced Plan or Program</b> | <b>Maximum Number of Shares that May Yet Be Repurchased Under the Plan or Program(2)*</b> |
|--------------------------------------|--|-------------------------------------|---|---|
| October 3, 2016 - October 30, 2016   | 540,396                                      | \$ 38.23                            | 540,000   |   |
| October 31, 2016 - November 27, 2016 | 412,751                                      | \$ 38.80                            | 412,395   |   |
| November 28, 2016 - January 1, 2017  | 607,807                                      | \$ 38.43                            | 607,543   |   |
| Fiscal Quarter Ended January 1, 2017 | 1,560,954                                    | \$ 38.46                            | 1,559,938   | 660,434   |

\* The maximum number of shares that may yet be repurchased under the program as of January 1, 2017 was calculated using the Vista Outdoor closing stock price of \$36.90 on January 1, 2017. We completed our \$100,000 share repurchase program on January 23, 2017.

- (1) Included in the total number of shares repurchased were 1,016 shares withheld to pay taxes upon vesting of shares of restricted stock or payment of performance shares that were granted under our incentive compensation plans.
- (2) On February 25, 2015, our Board of Directors authorized a share repurchase program of up to \$200,000 worth of shares of our common stock, executable over two years. We completed this program during the quarter ended October 2, 2016. On August 25, 2016, our Board of Directors authorized a new share repurchase program of up to \$100,000 worth of our common stock, to be completed by March 31, 2018. We repurchased 3,095,952 shares for \$126,560 in the nine months ended January 1, 2017 under this program. Since the inception of these programs through January 1, 2017 we have repurchased 6,437,038 shares for \$275,630. The shares were purchased from time to time in open market, block purchase, or negotiated transactions, subject to compliance with applicable laws and regulations. The repurchase authorization also allowed the Company to make repurchases under Rule 10b5-1 of the Securities Exchange Act of 1934.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

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### ITEM 6. EXHIBITS

| <b>Exhibit Number</b> | <b>Description of Exhibit (and document from which incorporated by reference, if applicable)</b>   |
|-----------------------|--|
| 2.1*                  | Transaction Agreement, dated as of April 28, 2014, among Alliant Techsystems Inc., Vista SpinCo Inc., Vista Merger Sub Inc. and Orbital Sciences Corporation (Exhibit 2.1 to Vista Outdoor Inc.'s Registration Statement on Form 10, filed with the Securities and Exchange Commission on August 13, 2014).                              |
| 2.2*+                 | Transition Services Agreement, dated as of February 9, 2015, among Alliant Techsystems Inc. and Vista Outdoor Inc. (Exhibit 2.2 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2014).   |
| 2.3*+                 | Ammunition Products Supply Agreement, dated as of February 9, 2015, among Alliant Techsystems Operations LLC and Federal Cartridge Company (Exhibit 2.3 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2014).   |
| 2.4*+                 | Powder Products Supply Agreement, dated as of February 9, 2015, among Alliant Techsystems Operations LLC and Federal Cartridge Company (Exhibit 2.4 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2014).   |
| 2.5*+                 | Tax Matters Agreement, dated as of February 9, 2015, among Alliant Techsystems Inc. and Vista Outdoor Inc. (Exhibit 2.5 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2014).   |
| 3.1*                  | Amended and Restated Certificate of Incorporation of Vista Outdoor Inc. (Exhibit 3.1 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2014).  |
| 3.2*                  | Amended and Restated Bylaws of Vista Outdoor Inc. (Exhibit 3.2 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2014).  |
| 4.1*                  | Specimen Common Stock Certificate of Vista Outdoor Inc. (Exhibit 4.1 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2014).  |
| 4.2*                  | Indenture, dated as of August 11, 2015, among Vista Outdoor Inc., the subsidiaries of Vista Outdoor Inc. party thereto and U.S. Bank National Association, as trustee (Exhibit 4.1 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 11, 2015).                            |
| 4.3*                  | Supplemental Indenture, dated as of August 11, 2015, among Vista Outdoor Inc., the subsidiaries of Vista Outdoor Inc. party thereto and U.S. Bank National Association, as trustee (Exhibit 4.2 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 11, 2015).               |
| 4.4*                  | Form of 5.875% Senior Note due 2023 (Exhibit 4.3 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 11, 2015).  |
| 4.5*                  | Second Supplemental Indenture, dated as of August 9, 2016, among Vista Outdoor Inc., the subsidiaries of Vista Outdoor Inc. party thereto and U.S. Bank National Association, as trustee (Exhibit 4.3 to Vista Outdoor Inc.'s Registration Statement on Form S-4, filed with the Securities and Exchange Commission on August 11, 2016). |
| 4.6                   | Third Supplemental Indenture, dated as of December 2, 2016, among Vista Outdoor Inc., the subsidiaries of Vista Outdoor Inc. party thereto and U.S. Bank National Association, as trustee.   |
| 10.1                  | Guarantee Supplement to the Vista Outdoor Inc. Amended and Restated Credit Agreement, dated November 30, 2016 among Vista Outdoor Inc., Bank of America, N.A. and the Lenders party thereto.   |
| 10.2*                 | Offer Letter between Vista Outdoor Inc. and David D. Allen (Exhibit 10.1 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 13, 2017).   |
| 31.1                  | Certification of Chief Executive Officer.  |
| 31.2                  | Certification of Chief Financial Officer.  |
| 32                    | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 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 Labels Linkbase Document.  |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document.  |

\* Incorporated by reference.



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+ Schedules to exhibits have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. Vista Outdoor agrees to furnish supplementally a copy of any omitted schedules to the SEC upon its request; provided, however, that we may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any document so furnished.



**GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

4. *Counterparts.* The parties may sign any number of copies of this Third Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Third Supplemental Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Third Supplemental Indenture as to the parties hereto and may be used in lieu of the original Third Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

5. *Effect of Headings.* The Section headings herein are for convenience only and shall not affect the construction hereof.

6. *The Trustee.* The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Third Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries and the Company.

7. *Ratification of Indenture; Third Supplemental Indenture Part of Indenture.* Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Third Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

**[Signature Page Follows]**



IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

BELL SPORTS CORP.  
BELL SPORTS, INC.  
BELL CHINA INVESTMENTS, INC.  
BELL RACING COMPANY  
EASTON SPORTS ASIA, INC.  
C PREME LIMITED LLC

By: /s/ Stephen M. Nolan  
Name: Stephen M. Nolan  
Title: Chief Financial Officer

VISTA OUTDOOR INC.  
By: /s/ Stephen M. Nolan  
Name: Stephen M. Nolan  
Title: Chief Financial Officer

*[Signature page to Supplemental Indenture]*

ADVANCED ARROW S.DE R.L. DE C.V.  
BEE STINGER, LLC  
BOLLÉ AMERICA, INC.  
BOLLÉ INC.  
BUSHNELL GROUP HOLDINGS, INC.  
BUSHNELL HOLDINGS, INC.  
BUSHNELL, INC.  
CALIBER COMPANY  
CAMELBAK ACQUISITION CORP.  
CAMELBAK PRODUCTS LLC  
DOUBLE BULL ARCHERY, INC.  
EAGLE INDUSTRIES UNLIMITED, INC.  
EAGLE MAYAGUEZ, LLC  
EAGLE NEW BEDFORD, INC.  
FEDERAL CARTRIDGE COMPANY  
GOLD TIP, LLC  
HYDROSPORT, S. DE R.L. DE C.V.  
JIMMY STYKS, LLC  
MICHAELS OF OREGON CO.  
MIKE'S HOLDING COMPANY  
MILLETT INDUSTRIES  
NIGHT OPTICS USA, INC.  
OLD WSR, INC.  
OPT HOLDINGS INC.  
PRIMOS INC.  
SAVAGE ARMS, INC.  
SAVAGE RANGE SYSTEMS, INC.  
SAVAGE SPORTS CORPORATION  
SAVAGE SPORTS HOLDINGS, INC.  
SERENGETI EYEWEAR, INC.  
STONEY POINT PRODUCTS INC.  
TASCO HOLDINGS, INC.  
TASCO OPTICS CORPORATION  
VISTA COMMERCIAL AMMUNITION COMPANY INC.  
VISTA COMMERCIAL AMMUNITION HOLDINGS  
COMPANY INC.  
VISTA OUTDOOR OPERATIONS LLC  
VISTA OUTDOOR SALES LLC

By: /s/ Stephen M. Nolan  
Name: Stephen M. Nolan  
Title: Chief Financial Officer

*[Signature page to Supplemental Indenture]*

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:           /s/ Donald T. Hurrelbrink          

Name: Donald T. Hurrelbrink

Title: Vice President

*[Signature page to Supplemental Indenture]*

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## **Section 3: EX-10.1 (EXHIBIT 10.1)**

**Exhibit 10.1**

**GUARANTY SUPPLEMENT**

November 30, 2016

Bank of America, N.A., as Administrative Agent  
Attn: Robert J. Rittelmeyer  
555 California Street, 4th Floor  
Mail Code CA5-705-04-09  
San Francisco, California 94104

Amended and Restated Credit Agreement dated as of April 1, 2016 among  
Vista Outdoor Inc., a Delaware corporation (the "**Borrower**"), the Lenders  
from time to time party thereto, Bank of America, N.A., as Administrative Agent and  
the Arrangers

Ladies and Gentlemen:

Reference is made to the above-captioned Credit Agreement and to the Guaranty referred to therein (such Guaranty, as in effect on the date hereof and as it may hereafter be amended, amended and restated, supplemented or otherwise modified from time to time, together with this Guaranty Supplement, being the "**Guaranty**"). The capitalized terms defined in the Guaranty or, if not defined in the Guaranty, in the Credit Agreement and not otherwise defined herein are used herein as therein defined.

Section 1. Guaranty; Limitation of Liability. (a) Each of the undersigned hereby absolutely, unconditionally and irrevocably guarantees the punctual payment when due, whether at scheduled maturity or on any date of a required prepayment or by acceleration, demand or otherwise, of all Obligations of each other Loan Party now or hereafter existing under or in respect of the Loan Documents (including, without limitation, any extensions, modifications, substitutions, amendments or renewals of any or all of the foregoing Obligations), whether direct or indirect, absolute or contingent, and whether for principal, interest, premium, fees, indemnities, contract causes of action, costs, expenses or otherwise (such Obligations being the "**Guaranteed Obligations**"), and agrees to pay any and all expenses (including, without limitation, fees and expenses of counsel) incurred by the Administrative Agent or any other Secured Party in enforcing any rights under this Guaranty Supplement, the Guaranty or any other Loan Document. Without limiting the generality of the foregoing, each of the undersigned's liability shall extend to all amounts that constitute part of the Guaranteed Obligations and would be owed by any other Loan Party to any Secured Party under or in respect of the Loan Documents but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving such other Loan Party.

(b) Each of the undersigned, and by its acceptance of this Guaranty Supplement, the Administrative Agent and each other Secured Party, hereby confirms that it is the intention of all such Persons that this Guaranty Supplement, the Guaranty and the Obligations of each of the undersigned hereunder and thereunder not constitute a fraudulent transfer or conveyance for

purposes of Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar foreign, federal or state law to the extent applicable to this Guaranty Supplement, the Guaranty and the Obligations of each of the undersigned hereunder and thereunder. To effectuate the foregoing intention, the Administrative Agent, the other Secured Parties and each of the undersigned hereby irrevocably agree that the Obligations of each of the undersigned under this Guaranty Supplement and the Guaranty at any time shall be limited to the maximum amount as will result in the Obligations of each of the undersigned under this Guaranty Supplement and the Guaranty not constituting a fraudulent transfer or conveyance.

(c) Each of the undersigned hereby unconditionally and irrevocably agrees that if any payment shall be required to be made to any Secured Party under this Guaranty Supplement, the Guaranty or any other guaranty by such Guarantor, the applicable undersigned will contribute, to the maximum extent permitted by applicable law, such amounts to each other Guarantor and each other guarantor so as to maximize the aggregate amount paid to the Secured Parties under or in respect of the Loan Documents.

(d) To the extent that any Guarantor shall make a payment under this Guaranty of all or any of the Guaranteed Obligations (a "**Guarantor Payment**") which, taking into account all other Guarantor Payments then previously or concurrently made by the other Guarantors, exceeds the amount which such Guarantor would otherwise have paid if each Guarantor had paid the aggregate Guaranteed Obligations satisfied by such Guarantor Payment in the same proportion that such Guarantor's "Allocable Amount" (as defined below) (in effect immediately prior to such Guarantor Payment) bore to the aggregate Allocable Amounts of all Guarantors in effect immediately prior to the making of such Guarantor Payment, then, subject to Section 4 of the Guaranty such Guarantor shall be entitled to receive contribution and indemnification payments from, and be reimbursed by, each of the other Guarantors for the amount of such excess, pro rata in accordance with their respective Allocable Amounts in effect immediately prior to such Guarantor Payment. As of any date of determination, the "**Allocable Amount**" of any Guarantor shall be equal to the maximum amount of the claim which could then be recovered from such Guarantor under this Guaranty after giving effect to Section 1(b) hereof. This Section 1(d) is intended only to define the relative rights of Guarantors and nothing set forth in this Section 1(d) is intended to or shall impair the obligations of Guarantors, jointly and severally, to pay any amounts as and when the same shall become due and payable in accordance with the terms of this Guaranty.

Section 2. Obligations Under the Guaranty. Each of the undersigned hereby agrees, as of the date first above written, to be bound as a Guarantor by all of the terms and conditions of the Guaranty to the same extent as each of the other Guarantors thereunder. Each of the undersigned further agrees, as of the date first above written, that each reference in the Guaranty to an "**Additional Guarantor**" or a "**Guarantor**" shall also mean and be a reference to each of the undersigned, and each reference in any other Loan Document to a "**Guarantor**" or a "**Loan Party**" shall also mean and be a reference to each of the undersigned.

Section 3. Representations and Warranties. Each of the undersigned hereby makes each representation and warranty set forth in Section 6 of the Guaranty to the same extent as each other Guarantor.

Section 4. Delivery by Facsimile. Delivery of an executed counterpart of a signature page to this Guaranty Supplement by facsimile or other electronic transmission shall be effective as delivery of an original executed counterpart of this Guaranty Supplement.

Section 5. Governing Law; Jurisdiction; Waiver of Jury Trial, Etc.. (a) This Guaranty and any claims, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Guaranty and the transactions contemplated hereby shall be governed by, and construed in accordance with, the law of the State of New York.

(b) Each of the undersigned hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Guaranty or any of the other Loan Documents to which it is or is to be a party, or for recognition or enforcement of any judgment, and each of the undersigned hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each of the undersigned agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Guaranty or any other Loan Document shall affect any right that the Administrative Agent, any Lender or the L/C Issuer may otherwise have to bring any action or proceeding relating to this Guaranty Supplement or any other Loan Document against any Guarantor or any of their respective properties in the courts of any jurisdiction.

(c) Each of the undersigned irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Guaranty in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) EACH OF THE UNDERSIGNED IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS GUARANTY (OR THE TRANSACTIONS CONTEMPLATED HEREBY WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS GUARANTY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

*[Signature page to follow]*

Very truly yours,

Bell Sports Corp.  
Bell Sports, Inc.  
Bell China Investments, Inc.  
Bell Racing Company  
Easton Sports Asia, Inc.  
C Preme Limited LLC

By: /s/ Stephen M. Nolan

Name: Stephen M. Nolan

Title: Chief Financial Officer

Address for notices:

262 N University Drive

Farmington, UT 84025

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## Section 4: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

### CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mark W. DeYoung, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vista Outdoor Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by

others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2017

By: /s/ Mark W. DeYoung  
Name: Mark W. DeYoung  
Title: *Chairman and Chief Executive Officer*

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## Section 5: EX-31.2 (EXHIBIT 31.2)

**Exhibit 31.2**

### CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stephen M. Nolan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vista Outdoor Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our



supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2017

By: /s/ Stephen M. Nolan  
Name: Stephen M. Nolan  
Title: *Senior Vice President and Chief Financial Officer*

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## Section 6: EX-32 (EXHIBIT 32)

**Exhibit 32**

**Certification by Chief Executive Officer and Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

We, Mark W. DeYoung, Chief Executive Officer, and Stephen M. Nolan, Chief Financial Officer, of Vista Outdoor Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

- (1) the Quarterly Report on Form 10-Q for the period ended January 1, 2017 as filed with the Securities and Exchange Commission on the date hereof (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 as of the dates and for the periods expressed in the Report.

Dated: February 9, 2017

By: /s/ Mark W. DeYoung  
Name: Mark W. DeYoung  
Title: *Chairman and Chief Executive Officer*

By: /s/ Stephen M. Nolan  
Name: Stephen M. Nolan  
Title: *Senior Vice President and Chief Financial Officer*

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